





## NEWS: EUROPE

## Sanctions lay low Serbian economy

By Laura Silber in Belgrade

SANCTIONS are sounding the death knell of the Serbian economy, ruined by more than a year of war and the collapse of trade with the former Yugoslav republics.

Tighter sanctions, especially the oil embargo, are likely to bite with even greater severity following the United Nations Security Council vote on November 16 to tighten up on transshipments through Yugoslavia, now comprising Serbia and Montenegro.

Mr Tomislav Popovic, a Belgrade economist, believes that within three months Serbia will have grave problems providing its people with energy and food. He expects that the gross social product (a measure of the country's economic activity) will fall to \$1.7bn in the last quarter of this year, a drop of \$5bn on the same period three years ago.

Only a quarter of the 2.4m labour force is working and producing effectively, says Mr Popovic. Unable to keep industry going, state enterprises have sent about 800,000 workers on "forced holidays". Prices rose by 50 per cent in October, and industrial production fell about 25 per cent from the same period last year.

The Yugoslav dinar, which was devalued from 200 to the dollar to 750 last month, but on the flourishing black market, hard currency is being sold well above the new official rate.

Says one western diplomat: "For the time being it is a cash economy, but if inflation continues to rise, the dinar will not be worth using." Given the near collapse of the banking system, 40 per cent of all transactions are in cash, compared with 5-8 per cent in an average western economy. Credit cards are no longer accepted.

Diplomats say even the astronomical inflation rate no longer fully reflects the catastrophic economic situation. A price freeze covers 42 per cent of all goods. "Further, the basket of goods has changed," says a western diplomat. "People don't buy meat, many have stopped buying clothes and they can't buy newspapers."

Two private banks, which have close ties to the government, are helping to keep the social peace by offering high interest rates on dollar deposits. The banks, Dufina and Jugoskandic, offer rates of up to 85 per cent per month, nearly double the official inflation rate. Each night thousands of Belgrade inhabitants queue up to collect their interest, which enables many to make ends meet.

The tightened trade embargo may hurt Dufina and Jugoskandic which diplomats believe have made enormous profits from sanctions busting. In spite of the oil embargo, the bank owners have opened up private petrol stations, licensed by the Serbian authorities.

Sanctions-busting has also encouraged a growing segment of society to turn to crime, and the black market offers a wide range of wares from petrol to Kalashnikov rifles. Thanks to sanctions violations about 5-10 per cent of the population are getting rich by current Yugoslav standards, says Mr Dobrovoje Radovanovic, director of the Institute of Criminology.

But Mr Popovic estimates that half Serbia's 9.6m inhabitants are below the poverty line, earning less than \$370 a year. The huge influx of refugees from Bosnia and Croatia has also taxed an already overburdened system.

As the situation deteriorates, the government has introduced further austerity measures, putting the economy on a virtual war footing.

## Conference to discuss Belgrade's defiance of UN

By Robert Mauthner, Diplomatic Editor

TOUGHER action against Serbia, possibly including military action, will be discussed by foreign ministers from 30 countries at a conference in Geneva on December 16, convened to discuss the rapidly deteriorating situation in Bosnia-Herzegovina.

The conference, to be co-chaired by Lord Owen and Mr Cyrus Vance, the European Community and

United Nations mediators for a peace settlement in the former Yugoslavia, is due to decide on a joint international response to the growing violations by Serbia of ceasefire agreements, human rights and the UN's "no-fly" zone.

Faced with growing evidence of the death and suffering wreaked on the Muslim population by the Bosnian Serbs' policy of "ethnic cleansing", both western and Islamic countries have been persuaded that diplomatic action and economic

sanctions may not be enough to bring about a Serbian change of heart.

At a meeting of the Organisation of the Islamic Conference (OIC) in Jeddah yesterday Muslim countries appeared ready to make a formal appeal to the UN for international military intervention.

The consultative assembly of the nine-nation Western European Union defence organisation, meeting in Paris, has also recommended that member countries should study the

possibility of military intervention to relieve the Sarajevo region, free Bosnian Muslims from Serb prison camps and end ethnic cleansing.

However, there is no evidence that the western powers, particularly the EC, are on the point of agreeing to military action that goes beyond the protection of humanitarian aid convoys, presently undertaken under the umbrella of the UN.

Among the leading western powers, only the US, which unlike Britain and France does not have

any troops on the ground in Bosnia or other areas of the former Yugoslavia, has indicated that it would be ready to support military steps to enforce the UN ban on military flights over Bosnia. But British officials stressed in London yesterday that full-scale military intervention was only one of a range of options being discussed.

The one-day conference was originally proposed by France as a full-scale emergency ministerial meeting outside the Geneva-based

UN-EC peace talks on the former Yugoslavia. But that idea was dropped after Britain, current chairman of the EC and host of last August's London conference on Yugoslavia, insisted that it should be in the form of an expanded committee of that conference.

None of the parties to the Yugoslav conflict have been asked to attend, as they were to the London conference, in the hope that their absence will facilitate agreement on effective international action.

## Kohl rejects idea of 'Europe à la carte'

By Quentin Peel in Bonn

MR Theo Waigel, the German finance minister, yesterday urged member states of the European Community not to rush into economic and monetary union (Emu) too hastily, simply to preserve their national pride.

Clearly implying that a two-speed Europe was better than an unstable union, he rejected any suggestion that political pressure could be used to undermine the strict requirements of the Maastricht treaty on European union.

And Mr Helmut Kohl, the German Chancellor, warned that Europe could not indefinitely move at the pace of its slowest member states.

He was speaking as the German Bundestag voted overwhelmingly in favour of the ratification of the treaty, after a debate which was marked far more by doubts and misgivings than by outright enthusiasm.

The vote was by 543 votes to 17, with eight abstentions.

Chancellor Kohl spoke against any attempt - particularly from Britain - to try to enlarge the EC into a "glorified free trade area". He also rejected the concept - with both Britain and Denmark under suspicion - of turning the EC into "Europe à la carte", by allowing member states to pick or choose the bits they wanted to belong to.

Mr Klaus Kinkel, the foreign minister, expressed his fears about the increased powers of the German federal Länder in



Chancellor Kohl and Foreign Minister Klaus Kinkel (left) listening to Finance Minister Theo Waigel during the Maastricht debate

future EC negotiations, as enshrined in new amendments to the German constitution. Foreign policy must remain the prerogative of central government, he said.

Mr Waigel, who comes from the fiercely independent state of Bavaria, disagreed, saying the strengthening of federal controls over the central gov-

ernment was all to the good. And then speaker after speaker worried about the lack of democratic controls over the integrated European institutions, because of the failure to give enough powers to the European parliament.

The message was clear: the vast majority of the German political establishment remains

wedded to the concept of European integration, above all to lay to rest any revived fears of German nationalism and hegemony. Yet doubts about the details, not least about the democratic control of European institutions, and about the future stability of a single European currency, have not been laid to rest. The result is

that the Bundestag is insisting on a decision before embarking on the last stage of Emu, to determine if the convergence criteria have been observed by all EC states planning to join.

It is also writing in to the German constitution that no further steps to European union are possible without adequate democratic controls.

## Germany's citizenship challenge

Judy Dempsey on the hurdles placed in the way of those seeking naturalisation

OBTAINING German citizenship is largely a question of German blood, said Mr Michael Schlicker, a 31-year-old legal expert at the Federal Office for Problems of Foreigners.

Leaving through a heavy tome, he reads article 5.7 of the 1913 Reichs- und Staatsangehörigkeitsgesetz, or Imperial and State Citizenship Law.

"Through birth, one can acquire citizenship if the legitimate child has a German parent; and if an illegitimate child has a German mother."

This short article means that the 6.2m foreigners in Germany have little chance of obtaining German citizenship. Yet as the government and the opposition Social Democratic Party prepare to resume talks on amending the country's liberal asylum laws to curb the influx of foreigners, there is a growing consensus that what Germany really needs is an immigration law.

Many legal experts believe that without such a law, there is little chance of integrating foreigners into German society, and the possibility of social unrest could increase.

Under current regulations, there are some opportunities to obtain German citizenship. For instance, if a Russian marries an ethnic German, and both decide to live in Germany, the ethnic German, or Aussiedler, has by law the automatic right to German citizenship, and the Russian can be naturalised almost immediately. However,

if a Russian (or any other nationality) marries a German in Germany, remains married for two years, and lives without interruption for five years in the country, only then can he or she apply for citizenship.

There is still no guarantee that the application will be successful. To obtain citizenship, the spouse must have no criminal record, a job, a fixed abode, fluency in German, and a knowledge of German culture.

A foreigner who is not married to a German, must meet these conditions as well. In addition, he or she must have lived in Germany for 10 years before lodging an application.

After a further five years, when the heavy weight of German bureaucracy will have run its full course, the foreigner will be naturalised. But in common with all applications, original citizenship must be renounced because Germany does not allow dual citizenship.

In recent years, some concessions have been made toward integrating the children of the

Gastarbeiter - those invited to Germany in the early 1960s to make up the labour shortfall.

However, children born in Germany of non-German parents can only apply for citizenship between the ages of 16 and 23, again under certain conditions. These include residence in Germany for at least eight years, the renouncing of previous citizenship, and six years at a German school.

Ms Cornelia Schmalz-Jacobson, head of the foreigners office, says many Turkish teen-

agers want citizenship but their parents prefer them to retain Turkish citizenship.

"It is disgraceful that we make it so difficult for them to become German citizens. They will always regard themselves as foreigners," she added.

Refugees who have recognised refugee status in Germany, which means that they can live and work in the country, are confronted with a maze of obstacles before they can gain citizenship.

"The refugee has no legal entitlement to citizenship," said Mr Walter Brill, a legal officer at the Bonn-based United Nations High Commission for Refugees. "It is discretionary. There is never really a situation where the applicant has fulfilled all the conditions for citizenship because it is not stated in the law," he added.

Moreover, even if the refugee's application is treated favourably, there is another hurdle: original citizenship must be renounced. This is often difficult because the applicant must seek permission from those same authorities which forced the applicant to flee in the first place.

Mr Brill agrees that it is time for Germany to introduce an immigration law which would give foreigners easier access to citizenship. "The climate is finally changing," he said. But Mr Schlicker still wonders if the right wing of the establishment is prepared to dilute German blood as the price for a heterogeneous society.



NOT SO WELCOME: Refugees in Magdeburg yesterday, the windows of their hostel smashed by stones. Asylum seekers have little chance of becoming German citizens

## Danish workers count cost of No vote

By Hilary Barnes in Copenhagen

DENMARK'S No to the Maastricht treaty has cost the country 100,000 jobs, according to Mr Thor Petersen, economy minister. He said the vote against the treaty in the referendum in June had contributed to currency unrest, high interest rates and uncertainty about Denmark's future relationship with the European Community.

Mr Petersen was commenting on a business confidence survey showing that 42 per cent of senior managers in large Danish companies expect to cut their workforce this winter.

Recent unemployment figures indicate the minister's estimate of job losses may be exaggerated. Seasonally adjusted unemployment rose

from 310,000 in May, the month before the referendum, to 315,000 in September, the most recent month for which the figure is available.

Although Danish industrialists accept that the No vote has dampened business confidence, Mr Jørgen Hansen, director of the Federation of Danish Industries, describes the position in less drastic terms than Mr Petersen. "There is a widespread wait-and-see attitude," he says.

Mr Birger Rissager, chief executive of FLS Industries, the world leader in supplying machinery and know-how for the cement-making industry, says his company is being cautious about making new commitments until next spring, when another referendum is expected to take place. "If Denmark then decides to leave the Community, a new situa-

tion will arise. FLS will have to put its effort into other countries," he says.

Mr Hugo Schrøder, chief executive of Scandinavian Holding, which includes Skandinavisk Tobak, the tobacco goods group, and a large office furniture group, says that the Maastricht vote in June had not affected the group's investment decisions so far. But if Denmark voted No again, the group would have to consider whether to make more of its investments outside Denmark.

If Denmark again says No, the government has admitted it would have to withdraw from the Community. "We should then presumably have the same status as the European Economic Area countries, which means that we would be part of the internal market, but we would have no influ-

ence when the internal market's rules are made, a very unsatisfactory situation," says Mr Hansen.

If Denmark withdraws from the Community and loses access to EC markets for its agricultural products, serious consequences will arise for agriculture and related food processing industries.

A recent study by the Agricultural Council, grouping the farmers' unions and other farmers' organisations, said that without the Common Agricultural Policy, agricultural exports could fall by up to Dkr33bn (\$3.5bn), about 14 per cent of total merchandise exports. Up to 100,000 jobs - about 4 per cent of the country's total labour force - could be lost on farms, and in abattoirs, dairies and agricultural supply industries.

"The whole rural economy is

in trouble because of the current uncertainty," says Mr H.O.A. Kjeldsen, president of the Agricultural Council, "not just the farms, but the suppliers, the retailers, everyone".

At MD Foods, Denmark's largest dairy business and one of the largest in Europe, the prospect of Danish withdrawal from the EC is regarded as a catastrophe of such dimensions that it just cannot happen, says Mr Peter Kjeldstrup, communications manager.

"It would mean the slaughter of half the Danish dairy herd and a halving of MD Foods," he says.

For the moment, the uncertain situation means that MD Foods' investment spending would be slightly lower this year than last and a programme for acquisition of dairies abroad is being postponed.

## Brussels agrees strategy to help revive growth

By David Gardner and Andrew Hill in Brussels

THE European Commission wants EC leaders to earmark nearly Ecu7.7bn (\$5.2bn) as the kernel of a co-ordinated strategy, to be discussed at next week's Edinburgh summit, to get Europe's economies moving again.

The strategy, approved by the Commission yesterday, suggests the money would consist mostly of soft and temporary loans for infrastructure investment programmes, and the redirection of part of EC spending on research and training.

Mr Hansing Christoffersen, economy commissioner, said yesterday the Community needed "a good psychological signal from the European Council [in Edinburgh] which would give us something on which we could build a growth initiative".

The plan is consistent with earlier ideas for the EC to provide "seed-money" to revive economic growth, but falls far short of widespread reports that Brussels was preparing an Ecu50bn-Ecu60bn refutation package.

The document it approved yesterday calls for:

- A new European Investment Fund able to lend Ecu2bn

over four years for infrastructure and small to medium-size enterprises. The European Investment Bank would pay in 40 per cent of the Ecu400m capital, with the rest split between the EC budget and unspecified private financial institutions. The hope is that this could "support" investments of up to Ecu10bn.

- An Ecu5bn loan facility to support trans-European networks, normally transport, including those from western to eastern Europe where there is clear "mutual interest". These loans, raised on international capital markets, would be for "a limited time". There would be 10-15 per cent loan subsidies to participating east European nations, which the Commission suggests the London-based European Bank for Reconstruction and Development might help finance.

- New facilities for immediate retraining (at a cost of Ecu200m in 1993) for workers made redundant, "so as to avoid a loss of skills and motivation".

- Redirection of Ecu400m in R&D spending to improve industrial competitiveness, in areas like computer-aided design and manufacturing, advanced telematics, and laser processing.

## Crisis in Greece as PM sacks cabinet

THE Greek prime minister, Mr Constantine Mitsotakis, sacked his entire cabinet yesterday, promising a new one within 24 hours, Reuters reports from Athens.

He said he wanted a fresh hand to reshape the conservative government after months of internal feuding over his handling of the economy and foreign policy.

According to his spokesman, Mr Mitsotakis, 74, "asked for the resignations of the cabinet members. He will go ahead with a reshuffle. Tomorrow at noon he will swear in the new ministers".

The prime minister, with a one-seat majority in the 300-seat parliament, tried to whip dissenting deputies from his New Democracy party into line during a stormy meeting on Tuesday. But he faced renewed accusations after the session of being out of touch with ordinary people in pushing through a harsh austerity and economic reform programme aimed at trimming Greece's \$75bn national debt.

Political commentators said all cabinet seats were open and there was no early betting on new names to take up the key ministries of defence, national

economy and foreign affairs.

If Mr Mitsotakis replaced Mr Mihalis Papaconstantinou as foreign minister and Mr Stephanos Manos as economy, it would mark a sea-change in government direction.

Mr Manos, a no-nonsense technocrat, has made no concessions to powerful special interest groups while driving through the austerity programme. Last month he earned the government its first praise from the European Community for its economic policies, especially his unpopular decision to force through privatisation and to raise taxes to meet 1992 budget revenue targets.

Mr Papaconstantinou, a veteran politician, has been overseeing a campaign to block international, especially EC, recognition of the former Yugoslav republic of Macedonia. One of the Balkans' most obscure but potentially explosive disputes, the recognition issue has stirred deep nationalist feelings in Greece. Failure to hold the line at the Edinburgh summit next week could lead to the fall of Mitsotakis.

The former Yugoslav republic is accused of having territorial ambitions against Greece's Macedonia province.

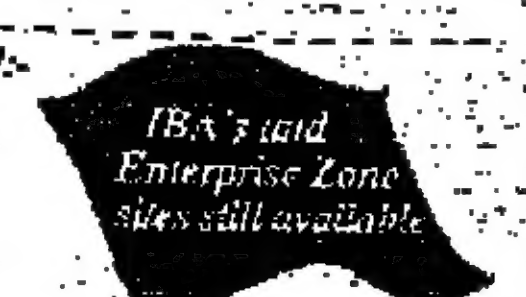
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The Financial Times (Europe) Ltd  
Published by The Financial Times  
(Europe) GmbH, Frankfurt Branch,  
Nikolaisplatz 3, 6000  
Frankfurt-am-Main 1. Telephone 49 69  
158550; Fax 49 69 596481; Telex  
416193. Represented by E. Hugo,  
Managing Director, Printer: DVM  
GmbH-Harriet International, 6078  
Neu-Isenburg 4. Responsible editor:  
Richard Lambert, Financial Times,  
Number One Southwark Bridge,  
London SE1 9HL. The Financial Times  
Ltd, 1992.

Registered office: Number One,  
Southwark Bridge, London SE1 9HL.  
Company incorporated under the laws  
of England and Wales. Chairman:  
D.E.P. Palmer. Main shareholders:  
The Financial Times Limited, The Financial  
Times Newspaper Limited, Publishing director: J.  
Rolley, 188 rue de Rivoli, 75004 Paris  
Cedex 01. Tel: (01) 4297 0621; Fax: (01)  
4297 0629. Editor: Richard Lambert.  
Printer: SA Nord Edcar, 1521 Rue de  
Celle, 91100 Roussay Cedex 1, ISSN:  
ISSN 1148-7753. Commission Paritaire  
No 6780/82.

Financial Times (Scandinavia)  
Vimeckskädet 42A, DK-1161  
Copenhagen-K. Denmark. Telephone  
(33) 13 44 41. Fax (33) 935335.

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## Politicians arrested over Italian murder

By Robert Graham in Rome

FOUR PROMINENT politicians in Reggio Calabria were arrested early yesterday, together with seven members of the Mafia, on charges of involvement in the murder three years ago of Mr Lodovico Ligato, former head of Italy's state railways.

Magistrates alleged they had all conspired to murder Mr Ligato because they feared he might compete for public works contracts in southern Italy along with rival clans of the local Mafia, the 'ndrangheta.

Mr Ligato, an ambitious local Christian Democrat, had been forced to resign from heading the railways after a contract scandal in 1988.

Yesterday's arrests raised the possibility of further evidence of the links between politicians and organised crime in southern Italy. These have been long suspected but only in the past two months has concrete evidence begun to emerge.

Three of those arrested yesterday are Christian Democrats and one is a Socialist. All four politicians are already under investigation for alleged corruption involving public works contracts in the city, as are

eight other leading members of the council.

The city of Reggio Calabria is due to hold municipal elections on December 13, following the arrest of the entire 23-strong council on corruption charges in September. Magistrates have also indicated that some members of the former council were linked to the Mafia.

The Christian Democrats arrested were Mr Pietro Battaglia, a former deputy and twice mayor of the city, Mr Franco Quattrone, a former deputy and junior minister, and Mr Giuseppe Nicolo, the party's regional secretary. Mr Giovanni Palombara, the Socialist, was also a former mayor of Reggio.

Yesterday, there were calls in Reggio for the postponement of the municipal elections.

Mr Ligato is alleged to have made an alliance with a rival Mafia group which had hoped to remove a sizeable share of the region's public works contracts, threatening to upset the current structure of contacts between the 'ndrangheta and local politicians. He was killed outside his house after he had been entertaining some guests. He was gunned down by two people on a motorcycle.

## Poland to reduce its steel capacity

By Christopher Bobinski in Warsaw

POLAND'S steel-making capacity is to be cut by a third over the next 10 years in a \$4.5bn modernisation programme approved by the government this week.

The programme foresees the closure of two mills and reduced capacity at four more of the country's 26 steel plants. This should bring output down to 11.7m tonnes of steel in the year 2002 compared with 15m at present.

In 1980, 19.5m tonnes of steel were produced and 13.6m tonnes in 1990. Output this year is expected to reach 9m tonnes.

Under the new programme the sector's 124,000 workforce will be reduced to 44,000 over the 10-year period.

The government is looking to the World Bank to provide about \$300m in financing for the plan which foresees the spending of \$1.5bn on new capital investment. Another \$1.5bn is to be spent on refurbishing existing plants.

The Siedlce mill in Krakow and that at Katowice, the two largest in the country, are to be merged.

Three continuous steel casting lines, due to come on stream between 1993 and 1995, are to be installed at the new company.

The plan sees Polish steel exports reaching 2m tonnes by the end of the century compared to sales abroad of 3.2m tonnes in 1991.

Barriers to sales of steel to the European Community are to be removed by 1998 under Poland's association agreement with Brussels.

Poland and other eastern European countries have been criticised by west European steel makers for producing with unfair subsidies and undercutting western prices. The EC has imposed anti-dumping tariffs on exports of seamless steel tubes by Poland and its former Comecon neighbours.

The European Bank for Reconstruction and Development has extended a \$6.6m modernisation loan to ABB Dörmel in Wrocław. Dörmel was bought by ABB in 1990. Editorial Comment, Page 12

## Hungary passes tough budget

By Nicholas Denton in Budapest

HUNGARY'S government yesterday pushed through parliament a 1993 budget designed to contain the spiralling deficit and return the country to the good graces of the International Monetary Fund.

The conservative coalition agreed an unpopular increase in value-added tax to help keep next year's budget deficit down to Ft185bn (\$2.2bn), equivalent to 5.9 per cent of forecast GDP, the level which the IMF had indicated it would accept.

The passage of the budget should allow a resumption of the IMF's \$DR1.14bn (\$1.57bn) three-year programme of credits for Hungary.

Hungary was suspended earlier this year because of budget overruns tarnishing its claims to be eastern Europe's star economic performer.

The main change in taxation was the imposition of 6 per cent VAT on staple foods and most other zero-rated products against impassioned protests during which dozens of people started hunger strikes.

Mr Mihály Kupa, the finance minister, justified his budget, which has come under attack from all sides, as a balance of thrift against the public's "ability to tolerate". Another senior official described the budget as the toughest imaginable in the political circumstances.

The government also defends the deficit as the price of banking and bankruptcy reforms and is fearful that tougher measures on public finances would snuff out the forecast fragile economic recovery in 1993.

Both opposition and independent commentators doubted that the assumptions underlying budget calculations were realistic and said that the combined central-budget and social security fund deficit would exceed Ft270bn or 8.6 per cent of GDP.



FUTURE IN DOUBT: Russian premier Yegor Gaidar is fighting to save his reform plans and his own job

## Gaidar reveals big Russian arms sales

By Leyla Boulton in Moscow

RUSSIA has recently sold more than \$2bn worth of weapons abroad, Mr Yegor Gaidar, Russia's acting prime minister, said yesterday. This included a \$1bn contract with China and deals for \$500m and \$600m with India and Iran. He also mentioned "major contracts with Syria and other countries".

Mr Gaidar revealed this in the course of a powerful defence of his market reforms to the Congress of People's Deputies. Russia would continue to export weapons, he said, but he promised to avoid conflict zones. "We are not

going to stoke conflicts by supplying arms to hot spots, but there are no reasons to abandon this important market," he said.

The acting premier, who is fighting for his political life against increasingly powerful opposition to his policies, told the country's full parliament that Russia had a choice between radical reforms and joining the ranks of third world dictatorships. He dismissed claims by Mr Russian Khasbulatov, the parliament's chairman, that he was depriving the country of kinder Scandinavian market economies in favour of a harsh US model.

"A criminal slowing of restructuring an economy [dominated by the defence industry] will drag us further into underdevelopment... If we work really well and privatise half the economy, free the country from the reign of bureaucracy, then we will be able to discuss what kind of society we want," he said.

While admitting to a series of mistakes by his economic reform team over the past year, he said there was little room for manoeuvre on basic issues such as financial stabilisation to fend off hyperinflation, and an industrial policy which made selective use of

scarce resources. But he also promised practical steps which the country needed to better implement reforms. From January 1, Russia would operate proper borders with neighbouring republics so it could get a better grip on hard currency revenues lost through illegal exports of oil and other resources.

He claimed Russia would also enforce a new regime preventing other republics which used "the Russian rouble" to interfere with monetary policy.

Whether he continues as prime minister, which he sees as essential for pursuing "responsible reform", is yet

unclear. His speech drew polite applause, but appears to have swayed few of the deputies intent on his removal. "It was beautiful but my pockets are still empty," said Mr Yuri Gorkh, leader of a conservative industrialist faction.

President Boris Yeltsin is in theory supposed to present Congress with a candidate for prime minister later this week. Given the unlikelihood of a favourable vote for a Gaidar-led cabinet, he is looking for alternatives. One option is to appoint himself premier once again to enable Mr Gaidar to continue unhindered as economic supreme.

### ADVERTISEMENT

## THE CHALLENGE OF THE NEW SOUTH AFRICA

### Pedigree of a future government will determine SA's relationship with the rest of the world

R F (Pik) Botha, South African Minister of Foreign Affairs, talks to John Spira, Finance Editor of Johannesburg's Sunday Star.

Spira: Would you characterise your peace efforts in Angola as representing South Africa's improving relations with all the countries of southern Africa?

Botha: Yes. Governments in both Europe and Africa asked South Africa to act as a facilitator in the Angolan peace process. I believe this is indicative of an acceptance of the positive role that we have played and can play in Africa generally and in the southern region of the continent specifically. We regard it as a privilege to be able to do so.

Spira: Is the dominance of South Africa's economic muscle hampering efforts aimed at producing closer economic and political cooperation between South Africa and the countries of the sub-continent?

Botha: It threatens to do so unless we manage the relationship properly. We must allow the suspicions that exist to pass unexamined. I draw our neighbours' attention to the fact that South Africa has almost 2 million of their workers — workers who are occupying the jobs of almost 2 million South Africans. It would suit us to send them back, thereby substantially reducing our unemployment problem.

One of the reasons we don't send them back is that they are sending money home — money that is feeding six to seven million of their extended families.

Clearly, therefore, it is in our interests that their economies flourish in order to create employment for their people, in which event they would go back voluntarily.

Ultimately, the South African economy should not be viewed as a dominant force in the region but as a locomotive to help its neighbours grow by themselves. It is not in our interests to overwhelm them. Indeed, the converse is true. It is in our interests that they should grow side by side with us as far as possible. And the message is well received in most of our neighbouring states.

Of course, we also afford our neighbours a lot of assistance in the spheres of technology, agriculture and health services. But here we must be careful we don't give the impression that these are handouts. Rather, we should place the emphasis on co-operation.

After all, we all need each other in the context of a larger southern African economic market — one we already have in respect of South Africa, Namibia, Swaziland, Botswana and Lesotho. It's a beginning and in our wider vision of southern Africa, we include, in addition, Madagascar, Mozambique, Zimbabwe, Zambia, Malawi and Angola.

Now this is a huge piece of God's earth, very rich in natural resources and with a relatively sound infrastructure. It has 100 million people — already a large market. And a large market is a prerequisite for internal economic development.

If we put all this together and develop the region as joint partners, then we can present a worthwhile package to Europe.

I have high hopes of co-operation with Europe, whose countries were, after all, the colonial powers — which means they know Africa well. If we move in a direction in which Europe sees the region as a junior partner (that's all we can ever be), it will be prepared to advance us capital at low interest rates for scientifically based development projects.

I've discussed this concept with virtually all the European countries. They've shown interest and enthusiasm — with the proviso that there is a joint programme.

From that point of view, too, it would be counter-productive for South Africa to promote itself as the region's sole locomotive. I've discussed the larger southern African economic market concept with virtually all the governments of South Africa's neighbours and they're enthusiastic about the idea.

But enthusiasm is one thing; bringing the plan to fruition another. The problems in Angola and Mozambique, along with the ongoing violence in our own country, are stumbling blocks. It's a pity, because we're losing time and the industrialised nations aren't going to wait for us.

Spira: When will it happen?

Botha: We must get things moving on an economic basis, because the fragile political fabric of the region would delay the process. There's nothing to prevent a meeting of this kind taking place within months, other than the psychological legacy of the past.

Regrettably, in certain quarters we're still looked upon as the government that implemented and maintained apartheid, though on a broad basis it's accepted that apartheid has gone.

Spira: How can you expect African countries to focus on economic co-operation when the economy is taking a back seat in South African politics?

Botha: Even if we reach agreement on a new constitution, it will be to no avail unless it is underpinned by a strong economy. This is the key. I believe South Africans are too preoccupied with politics. What I would like to see is a forum in which we get together economic experts from the private sector and from abroad to tell all the political parties and movements that unless we start making the correct economic moves, we have little hope of staying abreast of the new world economic dynamic.

My view is that economic realities will sooner or later catch up with us and overtake the political squabbling and controversy.

Spira: What is the current attitude of foreign governments towards the startling political progress taking place in South Africa?

Botha: There are doubts in certain quarters abroad that South Africa will be able to come to peace with itself in the short to medium term. From an investment point of view, that's bad news for us. On the other hand, there's much goodwill towards South Africa on the part of the governments of a host of countries — goodwill displayed by not apportioning blame, by not taking sides, but, rather, by encouraging all parties to move ahead and not be swayed by short term political objectives.

They point to the short-sightedness of wanting to cling to power — a strong message to the ruling government. On the other hand, they advise against a policy of aiming for total power — a strong message to the ANC.

It is in this framework that I am optimistic. South Africa has been playing host to observers from the United Nations, the Commonwealth, the European Community and the OAU. On a per capita basis, Africa is growing progressively poorer. On an even-handed manner — which is good, because by acting as witnesses they are not intervening.

And I would hope that all South Africa's political parties and movements will be careful in what they plan if there are witnesses to their actions.

Spira: You've referred to the UN, the EC, the Commonwealth and the OAU. The World Bank has also been in South Africa. What's been the feedback from this body?

Botha: Sooner or later, politically and economically, even the laziest government will be faced with conditions that are now being put to African countries in our situation — conditions relating to the composition of their budgets, the structures of their economies and the like.

I've gone out of my way to be an advocate for Africa, urging the World Bank and the IMF not to be as strict or severe as they have been; to take into account the hardships of Africa and not to lay down conditions with which the average African country could not comply — even with the best will in the world.

There are certain realities which apply to Africa, among them: ● A history of an ever widening gap between it and the First World over the past two to three decades.

● Africa used to be a food exporting continent; now it's an importer. On a per capita basis, Africa is growing progressively poorer.

There are factors which have to be taken into account. It's no good telling Africa that it's had its chances and blown them. Doing so doesn't help the people struggling to get by in the present. Nothing is achieved by blaming Africa with the past.

We need a more realistic appraisal of the problems and obstacles facing Africa, with more leniency applied to the conditions for capital and technical assistance so urgently required.

The leaders of the industrialised countries to whom I've directed this plea are, by and large, receptive. Yet, at the same time, some express sentiments which give cause for serious concern.

There's a minority which indicates it is on the point of concluding that Africa has become so marginalised "that it will simply wink out of existence". Those aren't my words; they're words used by a prominent European leader, who is ready to write Africa off.

Let them have their squabbles and reticence. That's wrong. President-elect Clinton has emphasised the importance of a global alliance of democracy in which the world has already entered a global economy. How can you think of this without Africa? If you do, then you can't talk of a universal democratic alliance, nor of a global economy.

Spira: The absence of political certainty, overlain with outbreaks of violence, is undermining economic growth in South Africa. Are the relevant political players sufficiently aware of the damage being done?

Botha: Up till recently, no. But there are now signs that the major players are becoming more aware of the damage. There's been a shift in the philosophy of the ANC away from nationalism and



Pik Botha

towards acceptance of a market-oriented economy. When it comes to violence, I strongly believe that the IFP and the ANC ought to meet. There can be no higher priority in the mind of any leader than bringing to an end the senseless killing of people. I trust the peace accord structures will help all players realise that violence is no alternative.

The growing realisation that the damage being done to the economy might do irreparable harm, in my belief, becoming more and more appreciated.

Spira: When do you envisage meaningful advances materialising in the efforts to establish an interim government? What are the main stumbling blocks?

Botha: Only when sufficient progress is achieved can one make predictions. In my opinion, we haven't yet achieved sufficient progress to do so.

The Record of Understanding reached between the government and the ANC on September 26 constituted a major step forward. But that resulted in the IFP and other parties repudiating the agreement — a step backward.

We now have to concentrate on explaining to the IFP and others that the agreement constituted that which the ANC would agree; that it didn't comprise a definitive plan for the future to be imposed upon all political parties and movements.

The bottom line is that my government is in a hurry, because it doesn't envisage another election in terms of the current constitution. The time is overdue for us to show the world what we stand for — the complete eradication of racism. It's not only part of our thinking; we want to implement it — soon.

Spira: In your view, will foreign funds flow into South Africa once a new political dispensation is in place — if not immediately then how long thereafter?

Botha: Prospective foreign investors have made it clear that they first want to see what comes out of the box. Very significantly, they won't only look at the nature of any new government and constitution but also at the quality, the pedigree, of its policies — economic, social and political.

They will assess its adherence to fundamental human rights and the guarantees that will flow not only from the constitution on paper but from its decisions in practice — the style of its spokesmen, the tone of its utterances.

If the style is aggressive, with threats of agreements not being honoured, if the style is one which instructs the private sector to act in a certain way or action will be taken against it, then that will be interpreted as government interference.

If the style is intolerant of the media (unless you're the line press control will be implemented), foreign investors will fight shy of South Africa.

These are the down-to-earth but realistic elements that will determine the relationship between a future South African government and the rest of the world.

Spira: Do you believe South Africa can achieve a rate of economic growth sufficient to achieve rising living standards between now and end of the century?

Botha: Yes, even earlier — if (and this is a big if) we can achieve agreement on a new constitution as soon as possible — a constitution which will be implemented in a manner that will generate the confidence to which I refered in my previous answer, one that will radiate confidence to the rest of the world.

If we don't, we will become irrelevant, because the country would be doomed to permanent retrogression.

Department of Foreign Affairs  
Republic of South Africa,  
Private Bag X152,  
Pretoria, 0001  
Tel: (012) 323-3717

## Norway expects slight upswing in economy

By Karen Fosell in Oslo

NORWAY'S central bank said yesterday it expected a moderate upswing in the economy in the period to 1993, with low inflation and a continued rise in the current account surplus.

The bank warned the upturn would be insufficient to reduce unemployment unless wage growth is restrained. Unemployment is currently 7.9 per cent, a post war record and the biggest headache for the minority Labour government.

The central bank calculates that if wage growth can be restrained to 2 per cent below Norway's main trading partners, there could be a modest decline in unemployment up to

1996, followed by stronger falls thereafter.

Norway's GDP growth rate is expected to slow markedly in 1993 to 0.6 per cent from 2.6 per cent this year, and 1.1 per cent in 1991. The slowdown is explained by a stabilisation of daily crude oil output in 1993 at today's level of 2.2m barrels a day from a sharp increase from 1991, when it was just under 2m barrels a day.

Inflation will remain at just above 2 per cent and the current account surplus will fall to Nkr18bn (\$2.8bn) in 1993 from Nkr23bn, or 3.3 per cent of GDP this year, then rise to Nkr47bn in 1996 due to another sharp increase in crude oil output, the central bank said.

## Swedish industry boost

SWEDISH industry can expect its competitiveness to improve by 15 per cent next year as a result of the floating of the krona, according to forecasts from the ministry of finance, writes Robert Taylor in Stockholm.

At the same time, unemployment will rise from 4.8 per cent this year to 6.2 per cent in 1993 and 7.0 per cent in 1994 while

disposable income will fall by 3.5 per cent next year after a 2.6 per cent improvement in 1992. Private consumption is set to drop by 2.0 per cent in 1993 after a 1.1 per cent decline this year.

The estimates assume a 10 per cent decline in the value of the krona against the Ecu since the krona was floated last month.

## Most French and British couples prove faithful

By Clive Cookson, Science Editor

BRITISH and French sex habits differ little and few men and women are unfaithful to their partners, according to two studies published today.

Both Britain and France are populated mainly by faithful heterosexual couples, the studies indicate. They are the first large surveys of sexual behaviour to be carried in the two countries.

According to interviews with random selections of 20,000 people in each country, only about 6 per cent of women and 13 per cent of men have had more than one sexual partner within the past year. And just 4 per cent of Frenchmen and 6 per cent of men in the UK say they have ever had any kind of homosexual experience.

The spread of Aids during the 1980s prompted both studies. Health authorities felt handicapped in planning strategies to prevent HIV infection by their ignorance about people's sexual behaviour.

The French survey, conducted by the Agence Nationale de Recherches sur le Sida, was funded by the government. But Mrs Thatcher, then prime minister, refused to let the Department of Health support the UK study which she saw as an invasion of privacy; the Wellcome Trust, the largest medical charity, provided the £750,000 required.

The preliminary results, published in the journal Nature, are unlikely to shock Lady Thatcher but the researchers

say they will help those fighting Aids and other sexually transmitted diseases. Yesterday the scientists said the apparent absence of widespread promiscuity seemed reassuring.

Although one British man in 16 reported having had some kind of sexual experience with another man, only one in 28 had ever had a "homosexual partner" and one in 74 had a partner within the past five years. But in London one man in 20 had a homosexual partner in the last five years.

One interesting finding is that people in the highest social classes (managerial and professional) are twice as likely as manual workers to have had two or more sexual partners within the past year. The researchers believe this is because higher incomes and greater mobility give many more opportunities for sexual encounters.

The French survey showed an encouraging increase in the use of condoms by those most at risk from HIV infection.

Although any survey of intimate personal information is liable to be distorted by the participants' lying, the researchers said both studies contained consistency checks which gave them confidence in the findings. The fact that men claimed more heterosexual partners than there were women acknowledging partnership may be due partly to male boastfulness and female reticence, but it can also be explained by the existence of prostitutes.

Greece's cabinet

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## NEWS: INTERNATIONAL

## Putting troops into Somalia is the easy bit

Without cash and commitment to a lasting settlement, the experiment is doomed, writes Julian Ozanne

TROOPS from the US preparing to intervene in Somalia will encounter an unusual foe: fiercely individualistic Somali bandits and desert warriors hardened by the rigours of their nomadic lifestyle.

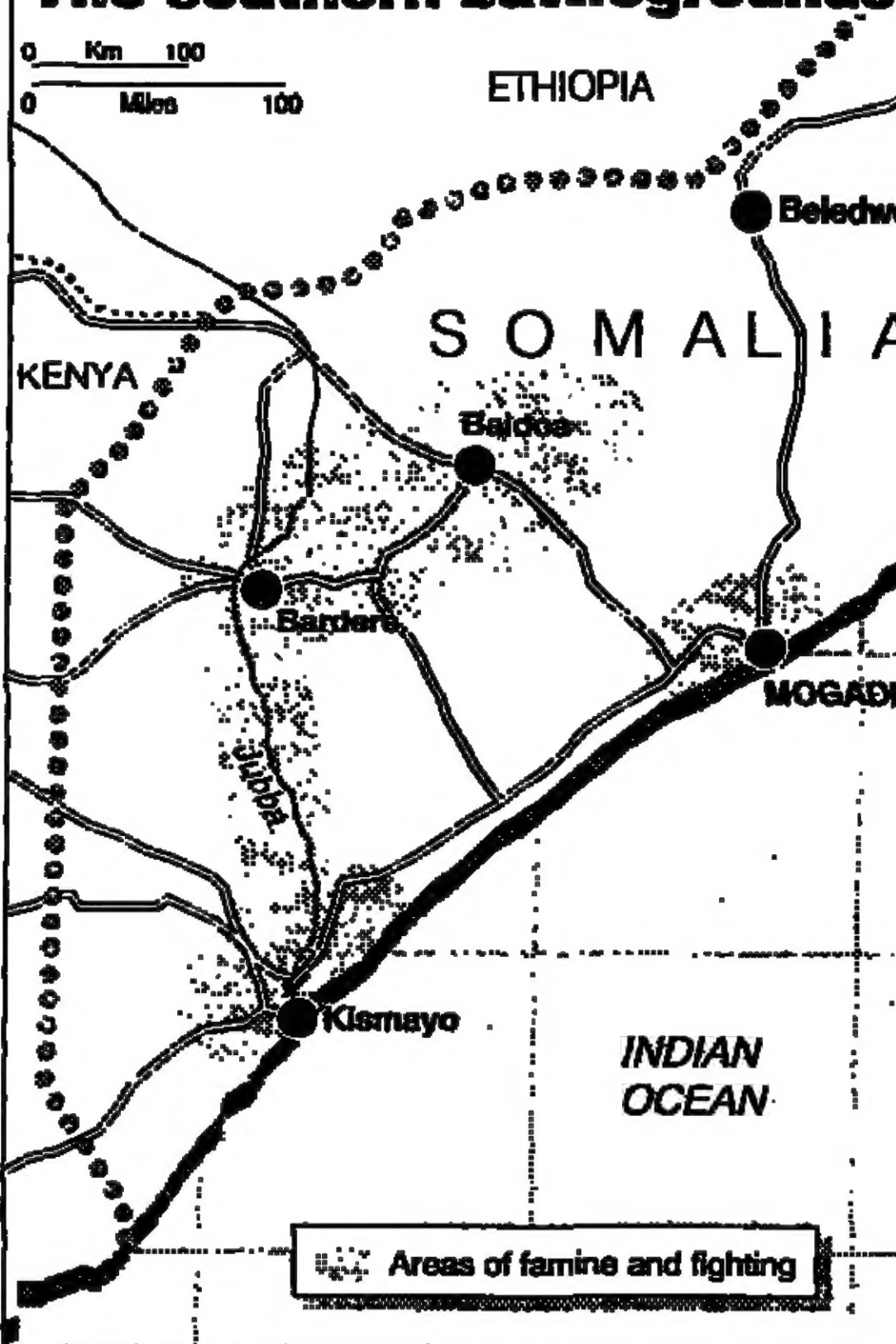
President George Bush's decision to offer up to 20,000 US soldiers to the United Nations to revive a defeated international aid effort to save hundreds of thousands of Somalis dying from war-induced starvation will run into special difficulties.

Somalia is no Vietnam or Iraq. There is no mass modern army in Somalia and the motivation of the Somali fighters is virtually non-existent. Instead US troops will have to confront undisciplined and poorly armed rag-tag gunmen - often drugged on the narcotic stimulant qat - who kill and maim their own people without remorse or purpose.

Groups of teenagers thrive on the anarchy they have created. The greatest fear for the safety of US soldiers will be isolated ambushes and blasts of stray gunfire from speeding customised "Mad Max" trucks.

Furthermore the US force will have to confront a war-shattered country with poor dirt roads and no electricity, water system or social infrastructure where temperatures soar to more than 100 degrees of dry heat. Huge parts of the arid heartland are inaccessible and sparsely populated, yet it is exactly in these southern areas - from Kismayo to Bar-

## The southern battlegrounds



Somali hired gunman guards food aid in the port of Kismayo

dere and across to Baidoa - where people are dying most.

Few believe the Somali nation will rise up against external intervention. The ruthless warlords who control the divided country have at best a few thousand dissolute

gunmen under their command and do not have popular support. But the chances of opposition by Somalis to the US intervention could be lessened if the Americans work closely with the UN and with Somali politicians and businessmen and use the radio to explain

their purpose to the Somali people.

Many Somalis will be enthusiastic about an intervention with the limited goals of feeding the starving, ridding the country of the ruthless and bloody rule of the warlords and leaving behind a legacy of law

and order and a new political arrangement. But months of aggressive propaganda by the warlords against "western imperialism" have created suspicious nomads that the west is trying to colonise the country, perhaps to steal fictional oil reserves.

These fears will be exploited by the warlords but they can be allayed if the US and UN puts in place a credible Somali consultative assembly or forum of the nation's more respected citizens, many of whom are in exile.

However, there is concern among those involved with Somalia that Washington's hasty plans are at best half-baked and at worse could backfire with terrible consequences. Statements by the White House that the 20,000 troops promised for the mission could be in and out of Somalia by January 20 next year, the date of the Bush-Clinton handover, have alarmed aid workers and UN officials in Somalia.

Observers concede that with the success of the US aid operation in northern Iraq, the American force could move vast quantities of food and medicine and temporarily end starvation within weeks. But they point out that in Iraq President Saddam Hussein was fearful of antagonising the US into further military involvement and in effect decided to allow the US operation to proceed. He ordered his disciplined troops not to oppose the

operation. The deeper United Nations involvement expected in Somalia, under which US troops would be authorised to use force to ensure aid shipments to the starving, has the following aims, as outlined by Secretary General Boutros Boutros Ghali, AP reports from the UN in New York.

- Confiscate the fighting factions' heavy weapons and put them under international control.
- Disarm the fighters.
- Ensure the safety of international relief personnel and the 500 UN peacekeepers already in Somalia.
- Establish a ceasefire.
- Replace the force that restores order with UN peacekeepers when fighters are disarmed and heavy weapons are brought under international control.

In Somalia there is no similar fear of provoking the US and no chance of command and control between the warlords and the gunmen. As soon as the US troops pulled out of Somalia, the country could slide back into anarchy, and mass starvation would quickly return.

Experienced aid workers say the only possible long-term solution is to launch a massive humanitarian operation in tandem with efforts to broker a political settlement capable of bequeathing the country a climate of peace and law and

order. They point out that it is the civil war and insecurity which has caused the deaths from starvation and frustrated relief efforts, and not a natural disaster such as drought. Without resolving the conflict it will be impossible to eliminate starvation.

Leaving behind a stable environment will require a working consultative assembly which cannot be blackmailed by the warlords. A well-paid and trained Somali police force will have to be established quickly and put under the authority of an interim administration. Once the police are in place and the cycle of criminality broken, foreign troops can retreat to a minimum role and the UN can sponsor a national conference in a climate of peace to prepare the way for elections.

But any Somali administration put in power by the UN will have to be heavily funded to start the long process of reconstruction, ensuring that resources are distributed equitably to all Somali clans. As the US and UN prepare to undertake a massive experiment in Somalia, which may set precedents for intervention in other countries such as Yugoslavia and Cambodia, the real question which remains unanswered is whether they are prepared to make the necessary long-term financial commitment needed to make it work.

Without that commitment the experiment is doomed to failure.

## Observers held by Khmer Rouge

By Victor Mallet in Phnom Penh

SIX United Nations peacekeepers were being held hostage by Khmer Rouge guerrillas in Cambodia last night after more than 24 hours in captivity, the UN Transitional Authority in Cambodia (Untac) announced.

A further six UN staff were injured by landmine explosions yesterday and Lt-Col Thierry Monnet, the French chief of Untac's military operations, was injured when the helicopter in which he was travelling was hit by gunfire. He was on his way to assist in negotiations over the fate of the six captives.

The incidents were a further indication of the increasing tension in Cambodia. Untac is registering voters for elections in May next year without having succeeded in disarming the four main factions as originally planned.

The Khmer Rouge is refusing to abide by a peace plan it signed 13 months ago in Paris and some of its guerrillas have been telling Cambodian villagers not to take part in the election. At the same time government forces and Khmer Rouge units are preparing to do battle as usual now that the rains have ended.

The six men held by the Khmer Rouge were unarmed military and naval observers. They include three Britons, Lieutenant Scott Verney of the Royal Navy and army officers Captain Richard Williams and Lieutenant-Colonel Mark Walton. A New Zealander, a Petty Officer Oxenham, and two unidentified Filipinos are also being held.

In London the Foreign Office condemned the attempt to undermine Untac's work in Cambodia and called for the immediate release of the six. Mr Douglas Hurd, the foreign secretary, contacted Mr Boutros Boutros Ghali, the UN secretary general, India, the current president of the UN Security Council, was expected to see the Cambodian representative at the UN.

Carrying out walkie-talkies, the observers were investigating troop movements of Khmer Rouge and government forces from an inflatable boat on a river near Kompong Thom when they were apprehended at a Khmer Rouge checkpoint.

Untac said it appeared the guerrilla commander suspected the observers of spying for the government. Untac officials said it appeared the six men did not have an interpreter with them.

Untac, which said the men were unharmed when radio contact was last made, said that after a Khmer Rouge representative in Phnom Penh to accompany a UN team to the area to secure the release of the captives, but the Khmer Rouge had not been co-operative.

"We are at this stage gravely concerned," said Mr Eric Falk, Untac spokesman. "We have been unable to secure a NADK (Khmer Rouge) liaison officer to accompany us. This is very unfortunate and surprising."

He said of the six captives: "They are being held hostage and they shouldn't be." He declined to give details of negotiations which took place yesterday between Untac and the guerrillas.

Britain said last night that the Untac chief liaison officer was on the way to the area to try to negotiate their release. It is the first time that any of the 16,000 UN military personnel in Cambodia have been held captive for any length of time. Khmer Rouge leaders have refused Untac forces access to the territory under their control, but in a highly mobile guerrilla war it is almost impossible to say where one faction's territory ends and another's begins.

Two of the men injured in landmine blasts were Tunisian policemen whose vehicle ran over an anti-tank mine on a road near Siem Reap yesterday morning. Three Indonesian policemen and a Nepali were injured two hours later when their vehicle detonated another anti-tank mine in the same place. Untac personnel were then ordered to stay off the road until it had been cleared.

One of the Tunisians has already had a leg amputated, and it is feared that one of the Indonesians will also lose a leg.

**Kinshasa tension**  
Zairean security forces sealed off ministry buildings in the capital Kinshasa yesterday as tension rose between President Mobutu Sese Seko and his pro-opposition prime minister, Mr Etienne Tshisekedi. Reuters reports from Kinshasa.

## Chinese leaders 'don't want to deal with Patten'

By Simon Holberton in Hong Kong

CHINESE leaders do not want to deal any more with Mr Chris Patten, Hong Kong's governor, because they do not trust him, one of China's top advisers in Hong Kong said yesterday.

But Mr T S Lo, who was a member of the colony's Legislative and Executive Councils in the early 1980s and is one of Beijing's 44 advisers in the colony, sought to allay concern that China would move to set up a separate institution to vet agreements the Hong Kong government made with business.

On Monday China said that any agreement the Hong Kong government entered into would be invalid if not first approved by Beijing. This prompted widespread concern that China was attempting to bring the process of government in the colony to a standstill.

Yesterday the Hong Kong stock market continued its slide, with the Hang Seng index down 90.06 points to 5,411.65. It has lost 9.8 per cent so far this week.

"When they talk about the Chinese side's agreement they are talking about the system that has been set up already - the Sino-British Joint Liaison Group and anything created under those auspices," Mr Lo said.

"I can't visualise a de facto shadow committee which adjudicates on the validity of contracts entered into between

1994 and 1997."

On his visit to Beijing Mr Lo met Li Peng, China's prime minister, and Lu Ping, head of the Hong Kong and Macao Affairs Office of the Chinese cabinet. His comments were seen as authoritative, but it is unlikely that China will agree to any big contracts until Mr Patten withdraws his proposals for more democracy.

Mr Lo indicated that China would not back down on its opposition to the governor's proposals. He said China feels that the Basic Law - the Beijing drafted constitution for Hong Kong which comes into effect when the colony reverts to Chinese sovereignty in 1997 - provides for a lot of democracy.

He said that Chinese officials feel that all Mr Patten is doing is breaching deals already reached between Britain and China. "Because of that they feel that they don't want to deal with him any more."

Yesterday Mr Patten repeated in an interview with the BBC that the fate of his blueprint for constitutional reform would be decided by the Legislative Council. He said that while he could not introduce more democracy than the community wanted, he "could not go less far than the community wants me to go."

"At the end of the day, these matters will be decided in Hong Kong by the Legislative Council... I can't go beyond what the Legislative Council wants to do."

## Indonesia 'tortured East Timor leader'

By Peter Wise in Lisbon and William Keeling in Jakarta

PORTUGAL has accused Indonesia of using torture to force Mr Xanana Gusmao, the captured East Timor resistance leader, to renounce his cause on television.

In his statement Mr Gusmao called on fellow Fretilin guerrillas to surrender and abandon the struggle for independence in the former Portuguese colony.

Portuguese President Mario Soares said Mr Gusmao had been tortured and threatened. He had no lawyer and no opportunity to defend himself. Mr Gusmao was shown on Indonesian and Portuguese television in a film shot by the Indonesian military being interviewed by Mr Abilio Osorio Soares, the pro-Indonesian governor of East Timor.

Reversing all his previous beliefs, Mr Gusmao, who has led the struggle against Indonesian rule from mountain strongholds for the past 16 years, said he acknowledged East Timor's integration into Indonesia as "progress".

Mr Gusmao appeared tired in the film.

The Indonesian government has accused Mr Gusmao of organising a pro-independence march in November last year in which more than 50 demonstrators were shot dead by troops.

Amnesty International, the London-based human rights group, said it appeared Mr Gusmao's statement was forced from him.

Indonesian officials have said Mr Gusmao will be treated according to the law and have assured foreign diplomats that he would not be mistreated.

Poor relations between Jakarta and Lisbon have led to Portugal blocking a trade agreement between the European Community and the six-nation Association of South East Asian Nations (Asean) in protest at alleged human rights abuses in East Timor.

Diplomats say the sharp exchanges over Mr Gusmao's treatment may jeopardise discussions between Indonesia and Portugal under the auspices of the UN scheduled for later this month.

Indonesian troops occupied East Timor in 1975 when the Portuguese colonial rulers withdrew.

## Japanese budget becalmed in parliament

By Charles Leadbeater in Tokyo

THE Japanese supplementary budget needed to implement most of the ¥10,700bn (£57bn) emergency package announced in August is becalmed in the upper house of parliament. It passed the lower house only after four weeks of tortuous debate.

The budget itself has been hardly discussed. Most argument has centred on which politicians, aides and businessmen should be questioned in

parliament over their involvement in the Tokyo Sagawa Kyubin financial scandal.

The budget committee of the lower house passed the budget after the ruling Liberal Democratic party accepted to opposition demands that a top aide to Mr Shin Kanemaru, the party's fallen kingmaker, should testify over the scandal.

Mr Kanemaru resigned from the parliament after being fined ¥200,000 for accepting an illegal ¥500m donation from Tokyo Sagawa Kyubin, the trucking company. Mr Kane-

maru said that his top aide, Mr Masahisa Hattara, distributed the money to about 60 LDP politicians.

The LDP has also indicated that it will call Mr Noboru Takeshita, the former prime minister, and Mr Kiyoshi Sagawa, the trucking company's former president, to give evidence to the upper house. Mr Takeshita has already given evidence to the lower house. However, the opposition is pressing for other figures in the scandal, including Mr Kanemaru, to give evidence.

The delay makes it increasingly unlikely that the budget will be passed by both houses by December 8, when the current extraordinary session of parliament is due to end. It is likely the session will be extended by several days to allow further testimony on the scandal to be heard.

Meanwhile, the severity of the downturn which prompted the supplementary budget was reflected in figures yesterday which showed that the value of consumer electronics production in September was 20 per

cent down on the same month last year.

The decline in industrial electronics products output, however, has slowed, with production value down 10 per cent in September from the same month last year.

The value of camcorder production - about 44 per cent of consumer electronics output - was 29 per cent down in the first nine months of the year compared to the same period last year, according to the figures published by the Electronics Industry Association.

## Kuwait to investigate investors

By Mark Nicholson in London and Peter Bruce in Madrid

KUWAIT's parliament is to appoint a nine-member committee to investigate management of the Gulf state's overseas investments and the affairs of the London-based Kuwait Investment Office (KIO).

The investigation, the second into its foreign investments, is a measure of the concern over suspected improprieties in the management of Kuwait's previously abundant foreign holdings.

Meanwhile, the KIO's public relations advisers in Spain yesterday added to the confusion surrounding the Office's intentions there by announcing that trial lawyers had been appointed to study and execute ways to prosecute the former management of Grupo Torras, the KIO's Spanish holding company.

Some argue that it is still far from clear that the KIO's legal advisers have been able to identify charges that could be made with any likelihood of success in Spanish courts.

The value of Kuwait's foreign investments, which stood at around \$100bn before the Gulf war, is now believed to have shrunk to nearer \$30bn after a sell-off to pay for the costs of the Gulf war.

Mr Nasser Abdullah al-Rhoman, the finance minister, told parliament on Tuesday that Kuwait would have to continue liquidating its foreign investments to finance the government's budget deficit.



Chief Mangosuthu Buthelezi (above) was yesterday criticised by South African President F W de Klerk for his plan to create a multi-racial autonomous state in Natal province. Patti Waldmeir writes from Johannesburg. Mr de Klerk said the plan would exacerbate township violence and impede the resumption of multi-party democracy talks.

On Tuesday Chief Buthelezi, leader of the mainly Zulu Inkatha Freedom party, said he would hold a referendum to test popular support for merging the Zulu homeland he heads with white-run Natal province. His insistence that he would go ahead with the plan even without multi-party approval was seen as a veiled threat to declare unilateral independence from Pretoria unless Natal is granted autonomy within a federal South Africa.

## Algeria joins Egypt in war on militants

By Francis Ghiles

THE ALGERIAN government is broadening the scope of its battle against Islamic militants by co-operating with the Egyptian authorities.

The moves come after 10 years of estrangement between the two countries following Egypt's signing of the Camp David peace agreement and their diverging positions following Iraq's invasion of Kuwait in 1990.

The Algerian government of Mr Belaid Abdessalam has declared "all out war" on the Islamic Salvation Front (FIS) which was banned last February after the cancellation of the second

round of elections which the FIS was poised to win.

Mr Sassi Lamari, Algeria's minister of religious affairs, visited Cairo last month. Mr Mohamed Ali Maghoub, his Egyptian counterpart, declared that both countries were trying to stop the "export of the Iranian Islamic revolution".

Two weeks ago Algeria expelled seven Iranian diplomats, having withdrawn its ambassador from Tehran last winter following an Iranian press campaign against Algeria. Meanwhile the Egyptian and Algerian secret services are known to be working together on ways to control Islamic militancy.

For the Egyptian government, the fight against Islamic radicals has taken on a new dimension since Islamic groups began making sporadic attacks on tourists in Upper Egypt. A British tourist was killed and many German visitors were injured last month.

After Mr Abdessalam's declaration of "war" last week, the Algerian authorities banned FIS-backed trade unions such as the Islamic Workers Union (SIT) and thousands of private associations which, by late last year had virtually become a parallel administration in many Algerian towns.

Around 10,000 or so such associations sprang up in Algeria after riots in Octo-

ber 1988 broke the Front de Liberation National's monopoly on power as the country's single ruling party. Most associations are believed to have been controlled by the FIS.

The Algerian authorities also suspended these FIS-controlled town councils which had not been suspended earlier this year.

Terrorist attacks have killed an estimated 250 members of the security forces since the government declared a state of emergency on February 8. At least a few opponents of the regime have been killed and at least 2,000 Islamists are believed to be detained in camps in southern Algeria.

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## Talks with IMF called off Governing in Brazil is put on hold

By Christina Lamb  
in Rio de Janeiro

"SERIOUSLY now, let's start governing the country," was the caption under a cartoon of Brazil's President Collor on the front page of a Brazilian newspaper this week.

Ignoring the country's desperate need for direction, Mr Collor has opted to put governing on hold until the Senate judgment on suspended President Fernando Collor on December 18, expected to confirm his impeachment.

Tuesday night's decision to call off negotiations with the International Monetary Fund over a new accord was the strongest evidence of the confusion within the two-month-old administration, which has paralysed the country.

The querulous Mr Collor has cancelled a planned address to the nation, delayed a new wage policy and dithered over privatisation. Last week he cancelled a privatisation by fax and issued a decree putting himself in control of all prices in order to be able to readjust tariffs below inflation in direct contradiction of IMF recommendations.

His rejection of the orthodox economic programme elaborated by Mr Gustavo Krause and Mr Paulo Haddad, the economy and planning ministers, because it was "too Collette" almost caused the two men to quit last weekend.

Not only has Brazil failed to meet the targets of the \$2.1bn (\$1.4bn) accord signed in January, there seems little prospect of improvement. Inflation has been more than 22 per cent a month for the last year, the fiscal deficit is estimated at 7 per cent of GDP, domestic debt is at its highest since 1989, and tax receipts are down 25 per cent. GDP per capita has fallen 10 per cent since 1990.

Financial institutions are in

chaos. The Federal Savings Bank has a \$21bn hole. Petróbras, the state oil monopoly, is raising costly short-term money to cover \$5bn owed by the government and other state companies. Mr Murilo Portugal, the Treasury secretary, says the government's cash situation is critical.

The lack of policy definition has destroyed hope of a rapid economic turnaround. Consultants are revising forecasts downwards weekly and the government research institute IPEA has changed its projections from a 2.5 per cent growth in GDP to a 1.5 per cent fall, despite an expected trade surplus of \$15.5bn.

This is the backdrop to the economics team's reluctance to re-open talks with the IMF. The official reason for the delay was the congressional impasse over a \$12bn fiscal reform project crucial to balance next year's budget. The project is unlikely to pass this year.

Congress has already slipped back into its old combination of inactivity and pandering to vested interests, slapping 72,000 amendments onto next year's budget. Bills on intellectual property, patents, and private concession of public services are all stalled, while a much-needed port deregulation has retreated.

This year had been seen as crucial for stabilisation because the next two years will be taken up with a referendum on the political system, a constitutional revision and elections for congressmen, senators, governors and president.

The hope is that after the definitive judgment on Mr Collor, Mr Collor will begin tackling the array of economic problems. But Mr Luiz Padovani of Trevisan consultants, says: "This may be wishful thinking. The great fear is that after December 18 we will see Collor's real national face."

## Clinton warned on economic stimulus

By George Graham in Washington

US business economists have warned President-elect Bill Clinton that his planned economic stimulus may achieve little.

A survey by the National Association of Business Economists, published yesterday, showed a median expectation that the economic programme outlined by Mr Clinton during his election cam-

paign would result in just 0.2 percentage points of growth more than expected from a second Bush term.

The economists said the investment tax credit and infrastructure spending outlined by Mr Clinton would have only a small effect on the US economy, but said that did not mean he should aim for a bigger fiscal stimulus.

"Our advice right now is to be cautious. Clinton needs to maintain the

confidence of business and the markets," said Mr Joseph Duncan, the association's president.

The NABE survey shows a median forecast of 2.5 per cent growth in gross domestic product next year, with unemployment projected to fall to 7.2 per cent. Inflation is expected to remain around 3.4 per cent next year.

Strong economic data in recent weeks have led more economists to

urge Mr Clinton to think again about the need for an immediate fiscal boost as soon as he takes office next month.

However, yesterday brought one weaker statistic, as the Commerce Department said sales of new homes fell by 10.3 per cent in October, apparently contradicting a report by the National Association of Realtors showing that sales of existing homes had risen 8.1 per cent in the same month.

## Venezuela calls off national curfew

THE Venezuelan government has lifted the national curfew imposed after Friday's failed coup, and restored the rights to free speech, free transit and public assembly. Joseph Mann writes from Caracas.

Mr Luis Pinerua Ordaz, minister of the interior, said the government hoped to restore the rights to freedom from arbitrary arrest and the inviolability of the home before state and local elections on December 6.

President Carlos Andrés Pérez, the target of two coup attempts this year, has in recent days stressed that he does not plan to change his free-market economic policies.

## Argentina debt deal ready

Argentina and its commercial creditor banks are to sign a debt restructuring agreement in Buenos Aires on Sunday, the government announced. writes John Barham.

The ceremony will end months of cliffhanging negotiations over the conversion of \$23bn (£15bn) in debt into bonds, which will substantially reduce the debt.

## Discovery shuttle lifts off

The space shuttle Discovery yesterday blasted off with five astronauts and a secret satellite on the National Aeronautics and Space Administration's last big mission for the US Defence Department. AP reports from Cape Canaveral.

## Ecuador monthly inflation 1%

Ecuador's monthly inflation rate fell to 1 per cent in November, down from 6.3 per cent for October, suggesting that government anti-inflationary measures are beginning to take hold. Raymond Collitt writes from Quito.

## No joy for Little Rockologists

Jurek Martin on transition watchers forced to speculate on White House posts

ALREADY President-elect Bill Clinton has kept a promise. Soon after winning the election a month ago, he said he would not announce any appointments to his government before December, and he has not. But December has now dawned and speculation over who gets what is starting to mount.

It remains mostly speculation, because this is proving a phenomenally discreet transition operation, intent on avoiding, at all costs, some of the public tensions that have afflicted earlier interregna.

Clusters of advisers have set up shop in Washington to investigate various aspects of policy, but the decision-making circle on appointments is in Little Rock and is tight - with Mr Clinton himself, his wife Hillary, Vernon Jordan and Warren Christopher, the twin transition directors, forming its core.

All visitors to the Arkansas capital have been carefully noted by a press corps looking for any straw in the wind. Newspapers, magazines and news letters print lists of virtually everybody who has been mentioned anywhere for anything. And there has already been a certain amount of semi-public competition for specific positions.

The Wall Street Journal, for example, this week reported on a bitter subterranean battle, especially rife in the semiconductor industry, over the respective merits of two leading candidates for the job of trade representative: Ms Paula Stern and Mr Alan Wolf.

Both are acknowledged trade experts but Mr Stern, it has been noted with many nudges and winks, has tended more to represent foreign interests and Mr Wolf domestic concerns in their private consulting practices.

In a somewhat different vein, the New Republic magazine began what it called "a series of brief assessments of people we believe Clinton should not appoint to his administration" with a hatchet job on Congressman Lee Hamilton of Indiana, a possible secretary of state.

Mr Hamilton, the magazine said in an article that was the pure grating of the Washington insider wheel, was afflicted with "innate caution" (he believed La Col Oliver North was telling the truth) and "a status quoism not unlike George Bush's".

There is also political game-playing afoot, as in this week's hot rumour that Senator Lloyd Bentsen of Texas, chairman of the senate finance committee, will become treasury secretary. This seems to fly in the face of previous wisdom, which had it that Mr Bentsen and Mr Clinton - both, by Democratic standards, fiscal conservatives - might prefer Mr Bentsen not to leave the committee chairmanship, where the next in line is the less predictable, but always provocative, Senator Daniel Patrick Moynihan of New York.

But the Texas newspapers have been awash with stories of a Bentsen move. Behind many of them may be seen the discreet hand of Mr Henry Cisneros, the former mayor of San

Antonio, himself a candidate for the Clinton cabinet (transformation is most often mentioned) but possibly more interested in Mr Bentsen's Senate seat if it is vacated early.

The dilemma for all prospective candidates is the extent to which they can be seen to be pushing for a particular position. As one former member of the Clinton campaign who has done some transition work put it, "not campaigning for the job means you won't get it".

A fairly typical public performance this week was that of Mr John Young, former chairman of Hewlett Packard and a man of Hewlett Packard and a man of many lists as a possible secretary of commerce. He drew a decent crowd to a Washington breakfast but ducked all questions about the future, prefer-

ring the safer option of talking only about the need for greater US competitiveness.

Even political figures more accustomed to the limelight than Mr Young have been hiding behind bushels. Senator Bill Bradley of New Jersey, for instance, is now quoted at much shorter odds for the State Department than for the Treasury, in which he was once thought to have interest. There have been reports that he was sounded out by Little Rock before the Thanksgiving holiday last week about the foreign policy position but he has been far too discreet to comment at all, perhaps because he, too, was an Oxford man.

The disposition of Mr Christopher, deputy to Mr Cyrus Vance in President Jimmy Carter's State Department, still seems to be central to Mr Clinton's planning. There remains

an unsubstantiated assumption that he will get one of three critical jobs - secretary of state, attorney general or White House chief of staff. Once he is placed, or not, other appointments may follow more easily.

Mr Tim Wirth, the outgoing senator from Colorado who was among those known to have conferred in person with Mr Clinton last week, is another given a serious shot at one of three cabinet positions - energy, interior, or the Environmental Protection Agency. Mr Bruce Babbitt, the engaging former governor of Arizona and occasional intimate of the president-elect, is also frequently mentioned as a candidate for one of these slots.

Washington is likely to see Mr Clinton again next week and he might come with a few envelopes in his pocket. It is, after all, that time of year.



Bentsen: hot rumour



Moynihan: next in line



Clinton: kept his promise

## NEWS: WORLD TRADE

## Growth in world trade falling back

By Frances Williams  
in Geneva

THE growth of world merchandise trade has slackened in the second half of 1992 after rising by an annual 5 per cent in the first half, according to preliminary estimates by the General Agreement on Tariffs and Trade (GATT).

Giving the figures yesterday to GATT's annual meeting in Geneva, Mr Lars Amund, the meeting's chairman, said the "somewhat downbeat assessment" for the past few months reflected weak demand in western Europe and Japan.

Mr Amund, formerly Sweden's ambassador to GATT and now the country's representative in Brussels, said a successful conclusion to the Uruguay Round would provide a much-needed boost to the world economy.

International trade has been in the doldrums since the boom year of 1988. Last year growth in volume terms, at 3 per cent, was the smallest since 1983 and GATT predicted last March that growth this year would not exceed 4 per cent.

Interest in regional trading arrangements was high. Mr

Anell said, with 16 accords notified to GATT in 1992 against just one in 1991.

The EC should stop looking for foreign scapegoats and accept responsibility for the reduction in farm export subsidies which is the key to a much-needed GATT deal, James Dobbins, US ambassador to the EC, said yesterday. Lionel Barber writes from Brussels.

In a blunt address in Brussels, Mr Dobbins said it was a myth to suggest that the US-EC compromise on farm subsidies imposed greater sacrifices on the Community. He also rejected complaints that Europe was altering its agricultural policies under US pressure, saying that change was driven first by the reform of the Common Agricultural Policy (CAP) agreed by the Twelve last May.

Without naming France, Mr Dobbins said: "European leaders have an obligation to explain these realities to their voters. European leaders have an obligation to accept responsibility for the policies they have set, and the bargains they have struck."

Speaking at a conference on business opinion in the EC

organised by United Parcel Service, Mr Dobbins said US cuts in subsidised exports would be comparable with "where not greater" than those of the EC.

The US-EC deal calls for a 21 per cent cut in the volume of subsidised exports. This figure derives from the end of the 1988-90 base period, when US subsidy programmes grew faster than the EC's.

"This means that US subsidies will now have to be cut back more sharply than the Community's," said the US ambassador.

Measured against the volume of subsidised exports offered for sale this autumn until October 1988, the US will have to cut its subsidised exports of wheat by 54 per cent, barley by 78 per cent, rice by 95 per cent, vegetable oils by 84 per cent and poultry meat by 52 per cent, according to Mr Dobbins.

By comparison, based on European Farmers' Union projections of subsidised farm exports and fight the increasingly sophisticated piracy of everything from bogus birth control pills and Levi Strauss blue jeans to counterfeit brake linings and machine parts.

Mr von Schlicher says the US has made "significant progress" through the use of the "Special 301" section of the 1988 trade law in getting countries to sign agreements. "But the US needs to hold their feet to the fire" to ensure enforcement of those pacts.

Special 301 directs the US trade representative to "name names" of those countries failing to protect intellectual prop-

## Idea pirates 'dodging rules'

Nancy Dunne on complaints over counterfeiting enforcement

FOUR years after the US Congress passed tough legislation aimed at foreign piracy and counterfeiting, American companies complain that they are still losing billions of dollars because of inadequate protection of intellectual property rights by other governments.

"The improvements have been marginal," says Mr Johannes von Schlicher, executive director of the International Anti-Counterfeiting Coalition (IACC). "The US trade representative moves in and gets a wonderful agreement on paper, which everyone signs. They promise the world, but whatever they promise, they put into place for about six months and then everyone forgets about it."

The coalition represents more than 100 of the largest US exporters, including American Brands, Time-Warner, IBM, the Motion Picture Association of America, Monsanto and Walt Disney. The companies are urging the US government to provide more manpower to monitor international agreements and fight the increasingly sophisticated piracy of everything from bogus birth control pills and Levi Strauss blue jeans to counterfeit brake linings and machine parts.

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Special 301 directs the US trade representative to "name names" of those countries failing to protect intellectual prop-

erty rights. After negotiations, sanctions can be imposed, but it has only once come to that. Last year when India refused to protect pharmaceutical and chemical patents, Mrs Carla Hills, the US trade representative, slapped \$60m worth of Indian products from the US duty-free preference scheme for poor countries. This, she said, was "meant to be a rifle shot absolutely focused" on the beneficiaries of patent theft.

Mostly countries have succumbed to US pressure once they are named. Indonesia never made it on to the list but

improve protection of computer software, sound recordings, pharmaceuticals and agricultural products, to join the Berne Copyright Convention and the Geneva Phonogram Convention, and to grant copyright protection for 50 years.

While companies have been impressed by these successes, they complain that there has been little follow-up. Mr von Schlicher cites the example of South Korea, which in 1989 was removed from the list of worst offenders after signing an agreement to amend its laws to give broader protection

the iceberg since Customs only examines a small portion of the merchandise entering the US," Mr von Schlicher said.

Eight trade associations represented by the International Intellectual Property Alliance (IIPA) are so frustrated by Taiwan's failure to cope with copyright pirates, that it has vowed to oppose its membership in the General Agreement on Tariffs and Trade.

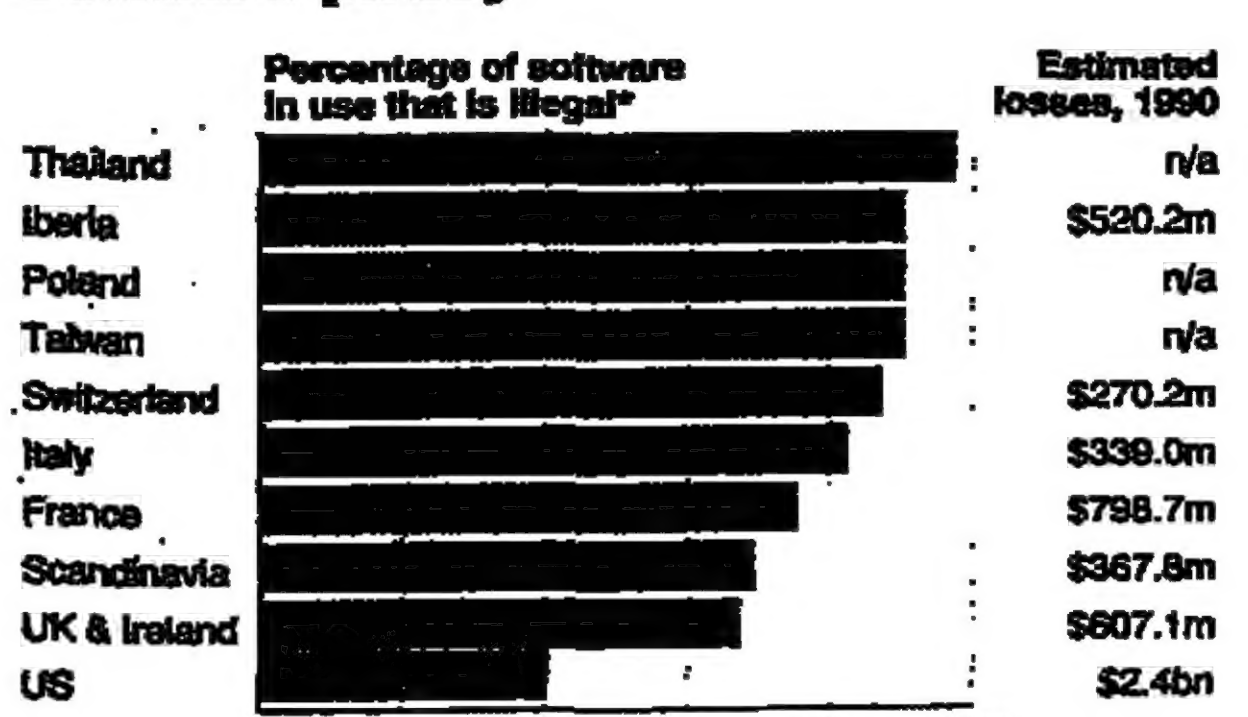
In particular the IIPA complains that Taiwan encouraged the financing and construction of seven compact disc manufacturing plants, which allegedly use their excess capacity to manufacture pirate CDs for export. The pirated products have appeared in the Middle East, Africa and Europe "distorting the legitimate market in these regions".

The IIPA is also calling for government action in Latin America, where pirates are cutting into the profits from US films, music, audio recordings, computer software and books.

A US trade official said President George Bush's administration has been working hard to improve enforcement of promised laws but "all these things work in fits and starts". Governments try to put local pirates out of business but the pirates are well organised and often dangerous. "They fight every step of the way and many have political influence."

Although multinational rules on intellectual property rights may be agreed in the Uruguay Round, the fight against pirates is likely to get tougher, the trade official said. "The more technology changes, the easier it becomes to steal the stuff."

### Software piracy



\*Estimates based upon number of software programs sold with each IBM-compatible personal computer in 1990, compared with average number of programs used per computer. Source: Business Software Alliance and Software Publishers Association

cut a deal with Hollywood film makers to avoid the disgrace. The other Asian tigers have fallen into line, one by one.

China - in 1991 named the worst offender for protecting neither product nor process patents, copyrights, trademarks or trade secrets - gave in last January. It promised to

intellectual property rights and to step up enforcement.

In the first year after the agreement, US Customs seizures of counterfeit merchandise from Korea dropped dramatically, but in 1992, they began to rise, approaching the levels of 1989. "Merchandise seized by Customs is the tip of

## Illegal software merchants hit

By Louise Kehoe  
in San Francisco

US PERSONAL computer software companies have launched a world-wide effort to crack down on software pirates operating electronic bulletin board systems which they allege are illegally distributing copies of their software programs.

"We are one month away from the single European market, and the Commission has done nothing," said Mr François Petit, the Alcatel director who chairs the round table of telecommunications section.

investigation by the Business Software Alliance, a group representing US software companies.

According to BSA, Berlin police seized about 25 computer containing illegal copies of software programs.

Electronic bulletin boards (EBBs) consist of a computer that can be accessed by other personal computers via telephone lines. PC users can dial these services and obtain copies of programs or send

messages. For the most part this is a legitimate cottage industry run by computer enthusiasts. Some, however, offer cheap copies of popular software programs.

"Distributors of illegal software are now operating aggressively throughout the world, selling pirated copies of software to unsuspecting consumers," said Mr Robert Holleyman, BSA president. Software piracy cost the industry an estimated \$10bn to \$12bn

(£7.8bn) in lost sales last year, according to BSA.

BSA's distribution is one of several methods of "cross-border" piracy which have become a primary focus of anti-piracy efforts by the software industry group.

Others are the illegal copying of software within multinational companies and the establishment of software distributors formed specifically to move counterfeit products from country to country.

## France keeps up oilseeds pressure

By David Buchan in Paris

FRANCE wants the EC to conclude a renegotiated oilseeds accord with the US, leaving other elements of the controversial transatlantic farm deal to be resolved later in negotiations under the General Agreement on Tariffs and Trade (GATT).

"We should settle the oilseeds dispute first," Mr Jean-Pierre Soisson, France's farm minister, said yesterday.

France could accept the restriction in the US-EC agreement limiting community cultivation of oilseeds to 5.12m hectares, but the ceiling on the amount of oilseeds which could be grown, on land set aside from food production, for industrial uses like bio-energy, would have to be raised or removed.

The French tactic seems aimed at raising again the option of separating the oilseeds dispute from the wider GATT farm row by arguing that the issue is not totally part of the GATT negotiations. Two GATT panels have demanded the EC change its oilseeds regime.

Speaking to foreign journalists in Paris, Mr Soisson suggested that France might try to rally other EC governments - notably that of Germany, which is a big oilseeds producer - for a direct approach to Washington for a renegotiated oilseeds deal. But French Prime Minister Pierre Bérégovoy was said yesterday to favour working through the European Commission according to established EC rules and protocol.

GATT will be one of the more delicate issues at today's Franco-German summit in Bonn. Mr Soisson acknowledged Germany faced a dilemma between "not wanting to separate itself politically from France, and not wanting to separate itself economically from the US".

An Elysée spokesman suggested that President François Mitterrand would not want to push Chancellor Helmut Kohl too hard on the GATT issue.



## NEWS: UK

# Union abandons anti-Japan talk in no-strike deal

By David Goodhart in London

THE trade union which once denounced Japanese company councils and no-strike agreements as "alien practices" has signed a single-union, no-strike deal, with the Japanese company Toray Textiles Europe.

Toray Textiles will shortly open its third British plant at a greenfield site in Mansfield, Nottinghamshire, employing about 400 people.

MSF, the 600,000-strong union representing mainly white-collar and professional staff, beat the GMB general union and the Knitwear Workers Union to secure the deal. It is the first it has signed for blue-collar workers.

The agreement includes a classic Japanese-style no-strike deal, denounced in the past by MSF, under which failure to agree on pay or conditions will lead to external conciliation. If unresolved, the dispute leads to "pendulum arbitration" at Acas, the conciliation service. Pendulum arbitration means the proposal of one side must be chosen, but no compromise can be accepted.

Mr Roger Lyons, MSF gen-

eral secretary, distanced himself yesterday from comments made by his predecessor, Mr Ken Gill, at the 1991 TUC Congress attacking Japanese company councils. "I'm not going to be held accountable for statements made in a personal capacity by my predecessor," he said.

He emphasised "things are moving on" in other areas of union policy, rejecting claims that MSF, along with other unions, was behaving hypocritically over no-strike deals. He stressed that, unlike many other such deals, Toray is allowing the participation of full-time union officials on the company council and union involvement in training.

The EETPU - the electrical section of the ABEU craft union, which was criticised by other unions when it pioneered deals like the Toray one in the early 1980s - took satisfaction from yesterday's announcement.

Mr Paul Gallagher, the electricians' leader, was "surprised but delighted" that MSF have stopped seeing inward investors as "aliens" which was their previous policy.

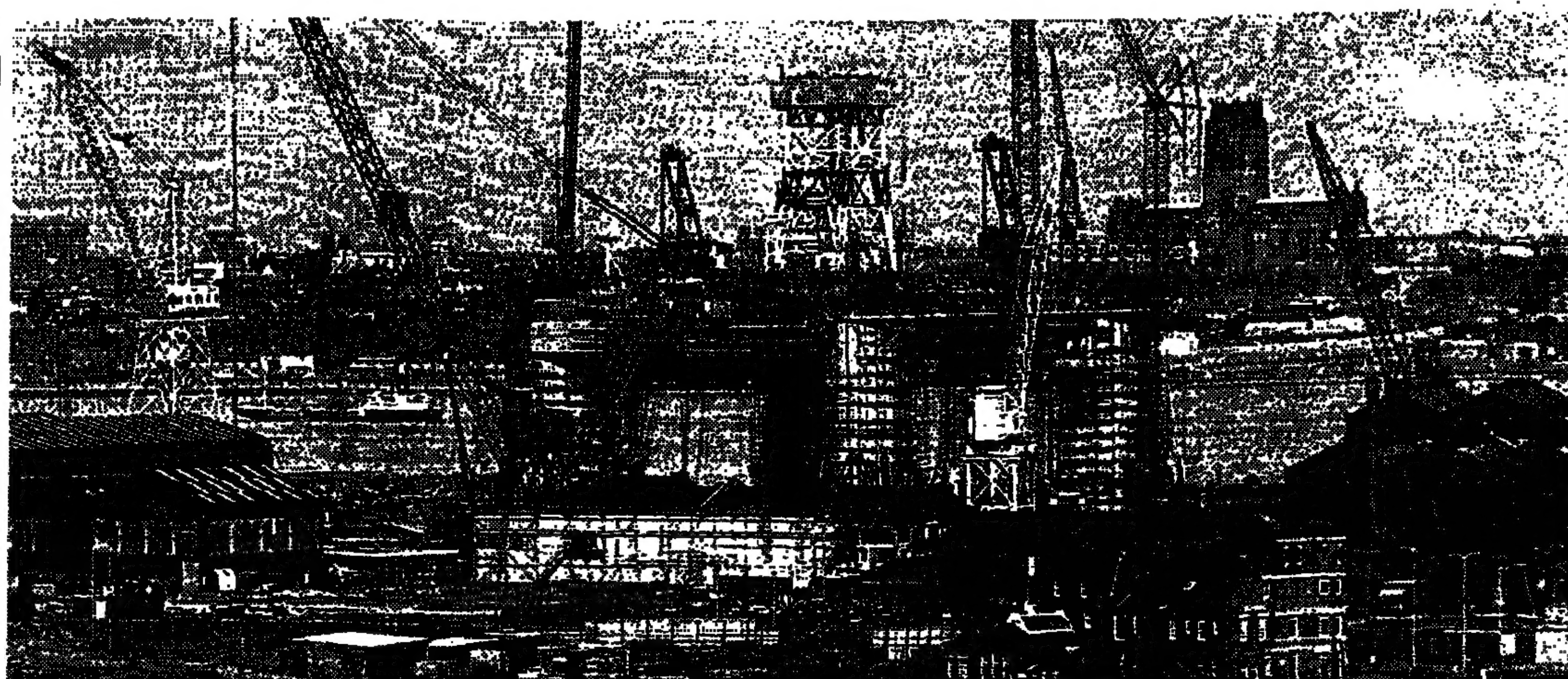
## 'Legoland' plan for safari park

By Hilary Barnes in Copenhagen and Michael Skapinker in London

LEGO, the Danish toys group, plans to open a DKr600m (\$97m) family amusement attraction on the site of the Windsor Safari Park, which closed last October.

The 24.7 acre London park, scheduled to open in 1996, will be modelled on Lego's highly successful Legoland amusement park at the group headquarters in Jutland. It will be the first Lego amusement park outside Denmark, but others are planned in Europe and America. Themes International, the private leisure concern which owned Windsor Safari Park, went into receivership last January. Several leisure groups, including First Leisure, the discotheque, tennis bowling and tourist attractions group, are thought to have looked at the park.

Lego expects the Windsor park to attract about 1.2m visitors a year. The Danish Legoland park is the most-visited tourist attraction in Denmark outside Copenhagen. It is built around models of villages and well-known monuments made from Lego bricks, but also includes a funfair and gardens.



GLORIOUS PAST: Liverpool's Anglican (right) and Roman Catholic cathedrals frame a busy Cammell Laird yard in the 1980s. The River Mersey flows between.

## Cammell Laird shipyard loses fight for survival

By Ian Hamilton Fazey

VSEL, the former Vickers warship builder, yesterday gave up its attempts to sell the Cammell Laird shipyard in Birkenhead on building Trident nuclear submarines and Birkenhead on diesel-electric ones.

Cammell Laird was bought by VSEL for £1 in 1986 after

the management buy-out of the Vickers yard in Barrow-in-Furness from the state-owned British Shipbuilders. Since then Barrow has largely concentrated on building Trident nuclear submarines and Birkenhead on diesel-electric ones.

However, the end of the cold war has destroyed both yards' markets. Work on the last

Upholder class submarine being built at the Merseyside yard will be completed next June. Barrow has enough Trident work for another three years, but has shed about 6,000 jobs since 1980 and expects to lose at least 2,000 more as the Trident programme runs down. Cammell Laird, which has been an essential part of Merseyside's economic structure

for more than 100 years and had one of the area's few large concentrations of skilled labour, employed 2,000 people two years ago, but has been laying off workers regularly since then.

Its best hope of survival lay in Liverpool Bay, where natural gas has been discovered in exploitable quantities by Hamilton Oil. Amec, the con-

struction and civil engineering group, looked certain to buy Cammell Laird to service a new offshore industry only 20 miles off the Merseyside and North Wales coasts.

However, protests by environmental groups forced Mr David Hunt, the Welsh secretary, last March to refer planning application for a new gas terminal to a public inquiry.

### Britain in brief



#### Sharp rise in complaints about banks

A FURTHER sharp rise in the number of complaints against banks by personal customers was reported yesterday by Mr Laurence Shurman, the banking ombudsman.

Complaints in the year to September rose by 60 per cent to 18,100.

Mr Shurman said the increase - the fifth consecutive yearly rise from the 1,682 made in the first year of the ombudsman scheme - reflected customer difficulties in the recession, and greater consumer consciousness.

The number of complaints accepted by Mr Shurman for full investigation under his terms of reference rose 28 per cent to 958. Of the 772 investigations he completed, some 36 per cent resulted in bank compensation.

The ombudsman scheme, in which 36 banks including all high street clearing banks participate, is limited to personal customers. The ombudsman deals only with claims of up to £100,000, and most awards were between £100 and £10,000.

Mr Gordon Brown, the shadow chancellor, said Mr Lamont should order a wide-ranging public inquiry into banks to examine "excessive" service charges and interest rates and the "inadequate information" available to customers.

The Consumers' Association said the rise in the number of complaints was "almost certainly the tip of the iceberg". Mr John Belahon, association director, said consumers were "fed up to the back teeth with the banks' incompetence".

#### Warning over labour costs

British companies must continue to reduce their unit labour costs if the competitive advantage of sterling's devaluation is not to be frittered away, Mr Howard Davies, Director General of the Confederation of British Industry, the employers' organisation, warned yesterday.

#### Strikes at 100 year low in UK

Despite recording the lowest domestic strike figures for nearly a century in 1991 Britain was still midway down the OECD league table of strikes, according to an analysis in the latest issue of the Employment Gazette.

In the 10 years 1982 to 1991 there was a general decline in all countries in the number of working days lost from strikes but the countries showing a consistently high strike rate were Greece, Spain and Italy, and those with consistently few days lost from strike action were Switzerland, Austria, Japan and the Netherlands.

In 1987-1991, the number of days lost through strike action in the UK was 70 per cent lower than in the previous

five-year period, which was substantially better than the OECD average of a 30 per cent reduction.

The most strike prone industries in OECD countries are mining, manufacturing, construction, transport and communication.

#### Tourist plan for London

A £2.2m publicity campaign to attract high-spending visitors to London was launched yesterday by 40 private and public-sector organisations, with the backing of film and sports personalities, including Elizabeth Taylor, Sophia Loren, Roger Moore and Steffi Graf.

The campaign, aimed at visitors from the US and the UK, is supported by British Airways, American Express, the Fortis hotel group, Harrods, Marks and Spencer, the British Tourist Authority and several London museums and other attractions.

Based on the slogan "It's not only Londoners who love London", the campaign will rely on newspaper and magazine advertising, direct mail and Prodigy, a shopping service linking 1.8m personal computer users in the US.

#### Rhône-Poulenc investment

Rhône-Poulenc, France's largest chemical company, is to invest £14m in new manufacturing plant at Norwich. The investment is to create facilities for a new fungicide called bromuconazole. An existing plant to manufacture herbicides is also being updated under the scheme.

#### UK reserves rise by \$86m

The UK's official gold and foreign currencies reserves rose an underlying \$86m last month, surprising City of London economists who had forecast another fall.

In September and October the reserves fell quite sharply, reflecting heavy spending by the Bank of England on September 16, in a vain attempt to prop up the pound.

However, the official reserve figures are not necessarily a good guide to official intervention on the foreign exchanges.

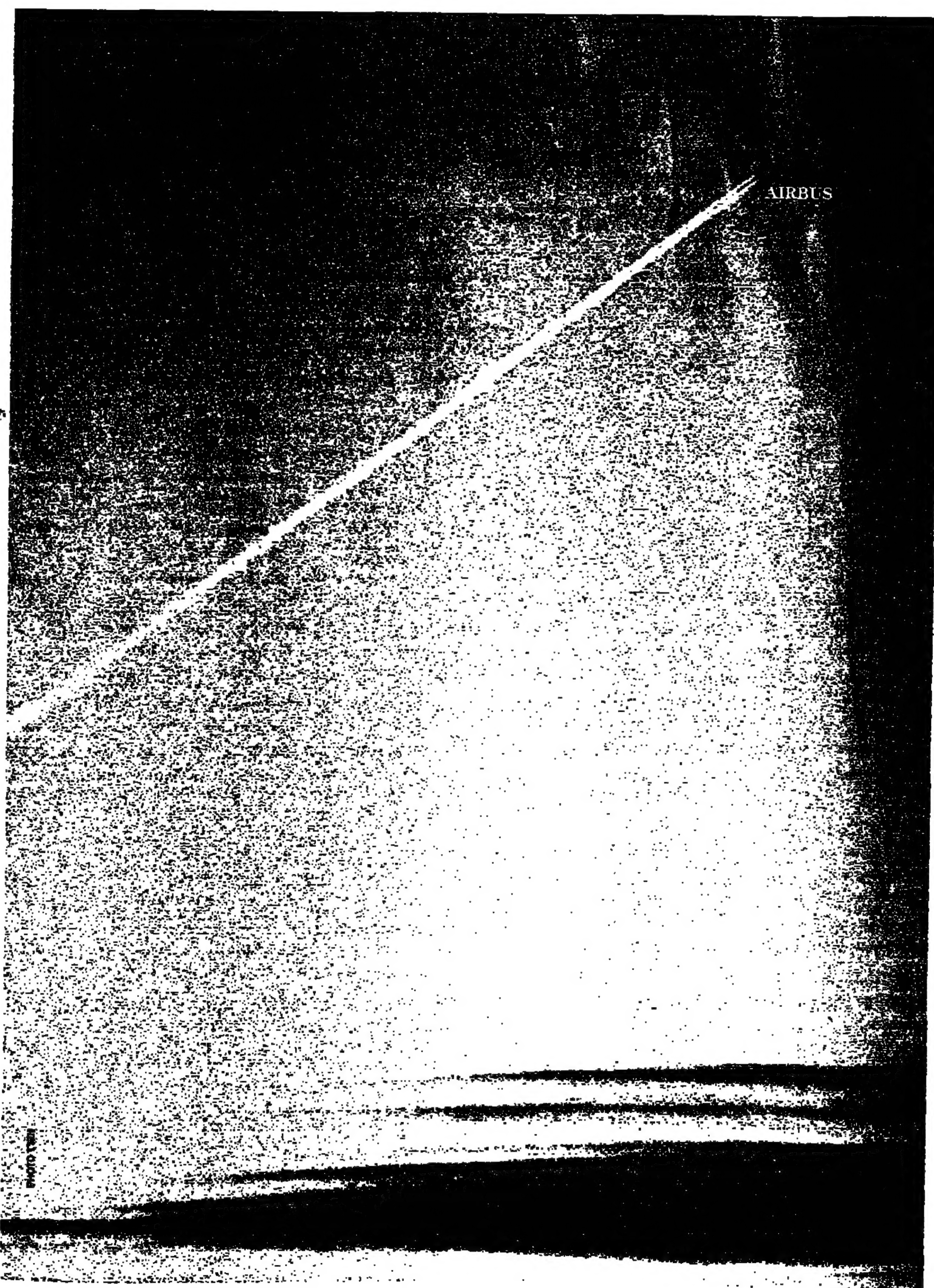
The Bank of England is able to shroud intervention levels by borrowing on the foreign exchange forward market, loans which can be rolled over indefinitely. It also borrowed funds from other European central banks before Black Wednesday, which do not have to be paid back until the middle of December.

"The rise of \$86m tells us nothing about what has been going on in terms of intervention," said Mr John Sheppard, economist at SG Warburg Securities. "To look to the official reserves for guidance is a lost cause."

#### Home of BBC sold for flats

The Lime Grove studios in Shepherd's Bush, which were occupied by the BBC for nearly 50 years, have been sold for redevelopment into flats and houses. Lime Grove was the home of many of the BBC's pioneering programmes, particularly in children's broadcasting.

Together we have reached the height of success.  
(and you know what success breeds.)



There can be no finer example of successful European cooperation than the combination of industrial know-how in aeronautic and space programmes. Aerospatiale and its European partners have joined forces to win 50% of the launch vehicle market for Ariane. A major success which has been repeated wherever the spirit of cooperation is present: 1800 aircraft sold to date by Airbus Industrie, almost 40% of the global helicopter market for Eurocopter and close on 550 regional transport planes supplied by ATR. As never before, the key to continued development in the sector of aeronautics and space lies in the complementary skills of European industries. A powerful force in which Aerospatiale places increasing faith with every day that passes.



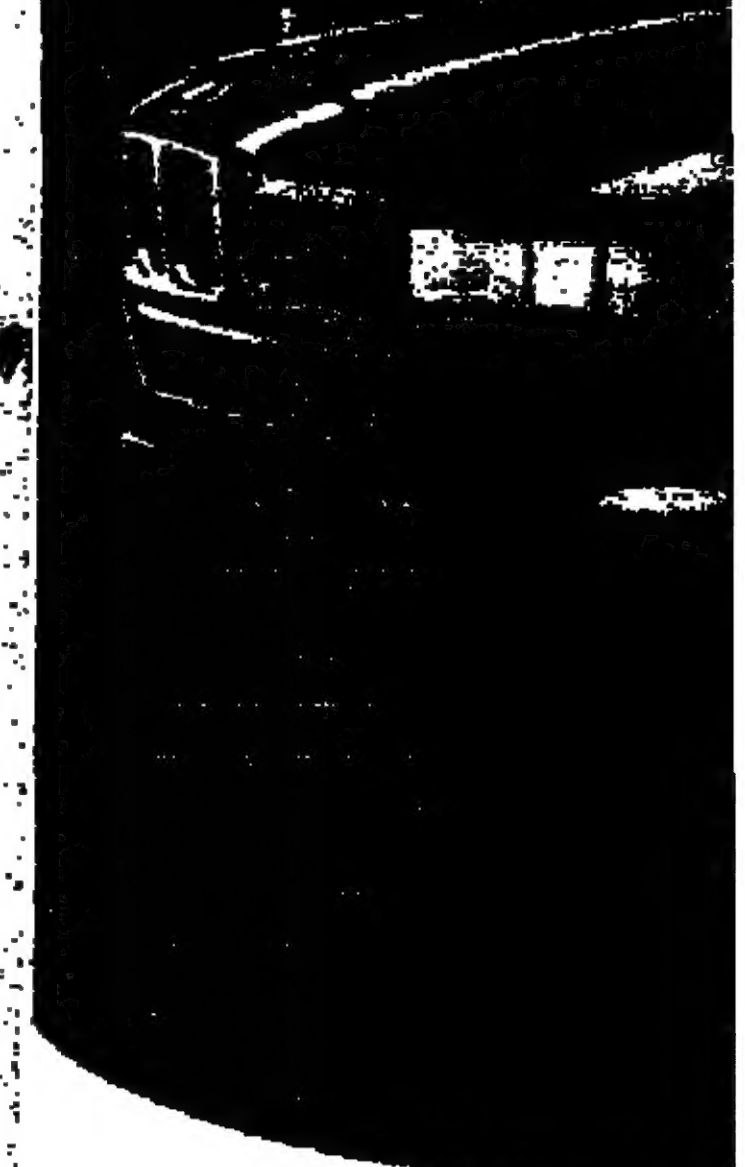
AEROSPATIALE

ACHIEVEMENT HAS A NAME

ST. Mercur  
out UK pho  
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its auction pre  
ous disappoint

ONE MORE  
IMPROVING 1



BMW we believe a car should  
ing everyone can enjoy.  
ing is why our designers might  
ach and every BMW is as beautiful  
as it is to drive.  
These days, however, achieving  
technically challenging. To produce  
basic BMW design while accommo  
dating unprecedented environmental constraints



## BT, Mercury to cut UK phone bills in 1993

By Hugo Dixon and Roland Rudd

MANY PHONE BILLS will be reduced from January after British Telecommunications and Mercury Communications yesterday announced a series of price changes.

Further cuts in phone bills are in prospect later next year as a result of vigorous competition unleashed between the two telecommunications companies.

In a break with its traditional pricing policy, BT said it might reduce its prices by more than it was required by OfTel, the industry regulator, in order to persuade customers to make more calls.

The change in BT's pricing policy has been prompted by a combination of increased competition, tighter regulation and the arrival of new executives who have experience of market-driven industries.

Prominent among these is Mr Michael Hopper, group managing director, who was chairman of Lloyds Abbey Life until last year.

BT yesterday announced a freeze on call charges, bigger discounts on its standard rates for customers who make many calls and improved terms on its optional pricing packages. Calls to the US and Canada

will be cut by between 3 and 10 per cent. But BT said that line rental charges would be increased by 5.9 per cent.

As a result of the changes, businesses will see their phone bills fall by between 0.6 per cent and 4.1 per cent, depending on their size, BT said.

But the average residential customer's bill will rise by 2.4 per cent.

Mercury pre-empted BT's price changes by announcing improvements to its own optional pricing packages, which it said would give customers extra savings of 5 per cent.

Optional pricing packages are a new feature in the UK telecommunications market which allow customers to pay cheaper call rates in exchange for higher standing charges.

Mr Hopper also said that BT had more price cuts "up our sleeve" which it did not want to reveal for competitive reasons.

According to preliminary calculations by OfTel, BT is required to cut its prices on average by a further 2 per cent before the end of next July to comply with regulations.

This would cut phone bills by another £100m.

Leader, Page 12

## Major success rests on fear of summit failure

Philip Stephens examines what is at stake at next week's Edinburgh summit and discovers that the success of the UK prime minister's EC presidency depends on some complicated trade-offs: a crucial factor may be the market reaction to failure

BRITISH prime minister John Major cannot yet be sure whether next week's Edinburgh summit will turn out to be a triumph or a disaster. Those in Whitehall, at the heart of the government's administration, prepared to quote odds on a successful outcome suggest that they stand at present at slightly worse than 50-50.

That may be deliberately over-cautious. It is in Britain's interests to play down expectations. Its partners meanwhile are not ready to reveal their full hands. The prime minister's tour of European capitals is judged by his officials to have been a "moderate success".

But as at Maastricht a year ago, the most important bargains can be struck only by heads of government.

Mr Major's principal hope for success rests on an assumption that has nothing to do with the detailed agenda: that his European colleagues will conclude they cannot afford to fail. Ratification of Maastricht has acted as a lightning conductor for popular disenchantment with the Community. With the economic outlook ever more depressing, a row at Edinburgh would reinforce the perception of the treaty as an indulgent irrelevance.

There is a practical dimension to the warning. It is being applied by the British presidency as a none-too-subtle form of blackmail. The financial markets, the argument runs, remain nervous and volatile - witness the latest bout of speculation against the French franc. The speculators are unconvinced still that central banks can hold the line within the European exchange rate mechanism. What chance would the ERM have if European leaders were seen to be incapable of agreement on the Community's future? It is a

powerful argument - one which Britain believes has particular resonance in European capital cities such as Paris, Madrid, Lisbon and Dublin.

It is also a two-edged sword. Mr Major more than any other leader in Edinburgh needs a political success. If Europe is judged to have failed then Britain will bear much of the opprobrium.

The list of issues that must be resolved is formidable. As of yesterday the presidency could cite a dozen items which one government or another insists should be on the agenda. Alongside the core internal issues - future financing, Denmark, enlargement, the single market, subsidiarity and the economy - are a range of smaller but potentially obstructive items.

Germany, for example, wants more seats in the European parliament. It is also determined that the heads of government look seriously at nuclear safety in the former Communist bloc. Macedonia is demanding recognition by the Community. Greece is threatening a walk-out if it is given. All the summit leaders recognise they must be seen to be responding to the unfolding human tragedy in Bosnia.

A crowded and complex agenda has obvious drawbacks. Deadlock on one issue could hold up agreement on everything else. Mr Felipe Gonzalez, for example, has indicated that the price of a deal with Denmark is a future financing accord with lots of what British officials refer to disparagingly as Spangeld. The eventual outcome may well depend on how obstinate Mr Gonzalez is prepared to be.

Those two issues - the budget and a package of exemptions to allow a second Maastricht referendum in Denmark - are judged by the presidency to be the key to success. With-



John Major: seeking the heart of Europe

out an agreement on both, Edinburgh will be judged a failure.

But the links offer advantages as well as drawbacks. They provide the scope for trade-offs: compromise on one issue can buy a government concessions on another. It is a form of negotiation that Mr Major, a master of detail, excels at.

There are more hopeful signs than the public rhetoric suggests. France has indicated privately that if Mr Major does not indulge in self-congratulation it will not provoke a row at Edinburgh on the EC-US farm trade deal. Chancellor Helmut Kohl has told the prime minister that he will do his best to ensure the summit is a success. British officials are confident that disagreement over the scale of any economic recovery package can be finessed by skilful drafting.

The southern states have rejected out of hand as miserly the budget compromise proffered by Mr Major. Germany and the Netherlands insist it is too generous. The presidency sees scope for technical adjustments in the resources formula which might yet bring the two sides closer together.

British officials hope also their compromise position on Denmark will meet Copenhagen's concerns while respecting the determination of others not to re-open the treaty. It suggests a range of instruments to give Denmark the opt-outs it seeks.

It could all yet unravel. European leaders have been known before to prefer stubbornness to self-interest. Mr Major, however, will devote every ounce of his energy to ensuring that they do not make that mistake again.

He has as much to lose personally as does the Community collectively.

## New plan to break Danish deadlock

By Philip Stephens in London, Hilary Barnes in Copenhagen

MR JOHN MAJOR last night tabled new proposals designed to break the deadlock over Danish ratification of the Maastricht treaty at next week's European Community summit.

But the outlook for the Edinburgh meeting was simultaneously clouded by an admission from Downing Street that the prime minister has been unable so far to agree a time for pre-summit talks with President Francois Mitterrand.

British officials sought to play down the significance of the apparent snub by Paris, insisting that official contacts had established a large measure of agreement between the two sides on the main summit issues.

As Mr Major returned from a three-day tour of European capitals, Downing Street said its latest proposals were designed to meet Denmark's demands for a dilution of its treaty commitments on defence, citizenship, interior and justice issues and monetary union.

But the presidency compromise - framed in terms of a legal declaration - would respect also the insistence of other European governments that there should be no re-opening of the treaty.

Speaking on Mr Major's return from talks with the Danish prime minister, Mr Poul Schluter, in Copenhagen, British officials said that the British presidency was hopeful rather than optimistic of an overall deal at the summit.

They warned that the north-south division within the Community over future financing remained as wide as ever, with Spain in particular threatening to block progress on other issues if its demands for more "cohesion" funds were blocked.

Mr Major will resume his tour of capitals at the weekend. Relations between the prime minister and President Mitterrand have been frosty since last month when Mr Mitterrand criticised Britain's handling of its EC presidency.

## Mortgages linked to age and family size

By John Gapper, Banking Correspondent

BRISTOL & WEST is to become the first building society (home loans and savings institution) to price new mortgages according to the borrower's age and family status. The move is likely to lead to higher charges for young, unmarried couples without children.

From the middle of next year, the society is planning to assess the credit risk of new borrowers using factors such as age, marital status and number of children.

The move could lead to a gap of up to 4 percentage points in the interest rates the society charges to different borrowers.

Bristol & West, the 10th largest building society by asset size, said that both unmarried couples and young adults living together as friends had proved to be worse credit risks in terms of mortgage arrears and repossession.

"It is an economic policy, although it sounds moralistic," Mr Tony FitzSimons, chief executive, said yesterday. "You have to consider people's lifestyles because regrettably those who are not bonded by marriage have a higher propensity to break up, and not pay the mortgage."

Mr FitzSimons said the society had found that unmarried couples were 50 per cent more likely to fall into arrears than married. Childless couples were more likely to default because their bills increased when they had children.

The Building Societies Association said yesterday that societies were gradually varying charges according to types and sizes of loans. However, none had yet started to charge differently according to customer profiles.

Bristol & West is still working on the policy, based on research among defaulting borrowers who took mortgages in the 1980s. It notes that young borrowers are possibly less embarrassed about repossession.

## Gilts auction proves a serious disappointment

By Sara Webb

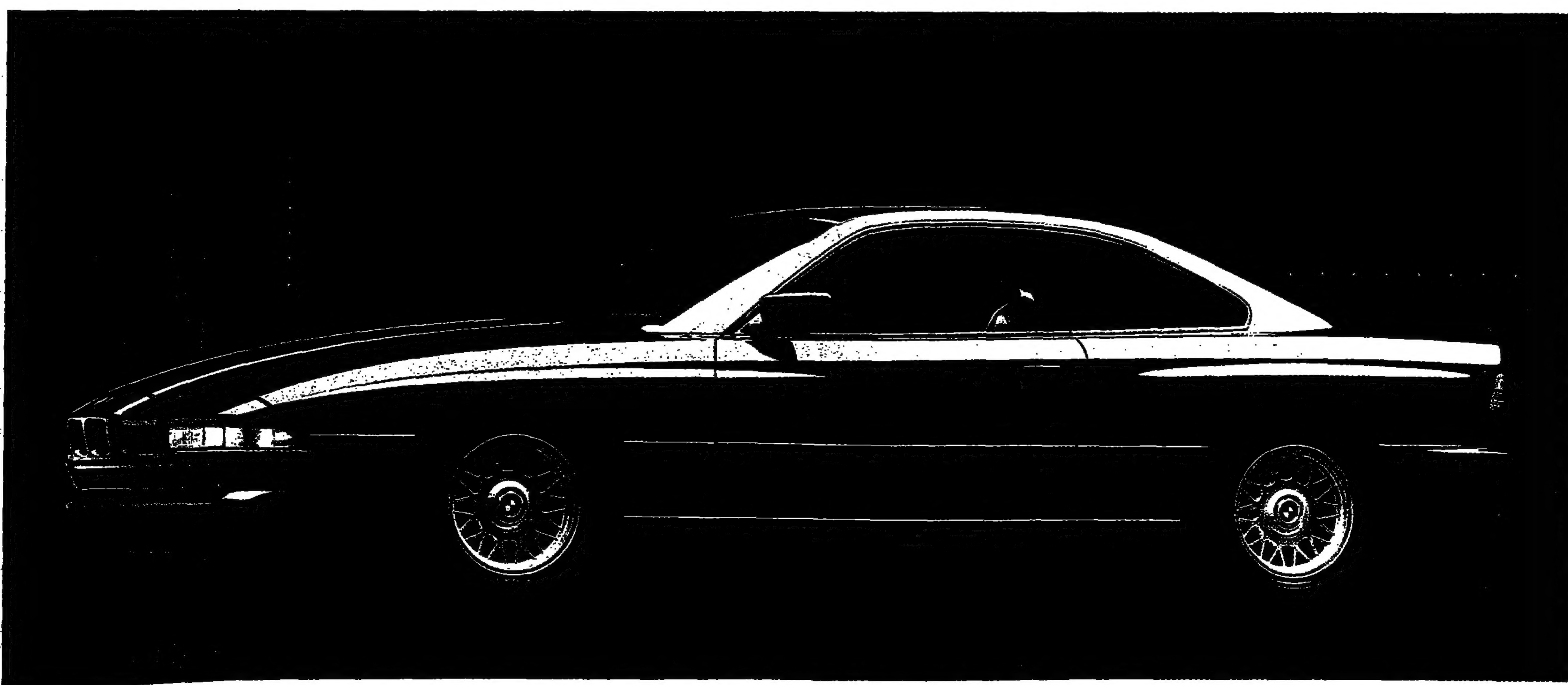
THE FIRST auction of UK government bonds since sterling's ignominious departure from the European exchange rate mechanism in September proved a serious disappointment yesterday as foreign investors stayed away from the gilt market, leaving domestic buyers to pick up the stock.

The Bank of England, which had put £2.5bn of gilts on offer, received bids totalling only £3.15bn, seen by the market as a very low cover ratio.

"The auction has confirmed the general view that UK interest rates are unlikely to come down substantially in the short term," said Mr John Kendall, economist at Baring Sterling Bonds.

The gilt issue on offer, 8 per cent Treasury stock due 2003, had been expected to appeal to overseas investors. The issue is expected to take over as the new 10-year benchmark, which is used as a reference for the rest of the market because of its size and liquidity. Gilts, Page 29

## ONE MORE EXAMPLE OF HOW BMW IS IMPROVING THE LOOK OF OUR MOTORWAYS.



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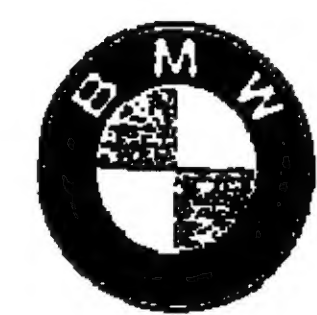
These days, however, achieving that end is especially challenging. To preserve the characteristic BMW design while accommodating new social and environmental concerns requires an unprecedented amount of skill and artistry,

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## TECHNOLOGY

Richard Tomkins explains how a controversial scheme to charge drivers would ease traffic congestion

# Haggling over road prices

Time is running out for road users. With congestion becoming a worldwide problem, drivers may have to get used to the idea of paying for their journeys.

This is certainly true in Britain, where new solutions are being looked at more closely than ever. While recession may have taken some of the heat out of the traffic crisis, it will not be long before vehicle ownership and use resume their rapid rise. In barely a decade, according to UK government forecasts, traffic levels could be 50 per cent worse than they are already.

The question is: just how is this traffic growth to be accommodated? Many large towns and cities already experience intolerable levels of congestion, but few have room for more roads. Many trunk roads and motorways are also packed, but even where environmental considerations allow for widening or new construction, the government cannot afford the huge sums required.

In both cases, it seems, something will have to give: and in both cases, it looks like being the road user. Indeed, if there were ever any doubts on the issue, they were dispelled by two separate government announcements on the sensitive issue of road charges.

One came from Norman Lamont, the Chancellor, in his Autumn Statement. If the country was to get the transport infrastructure it needed, the private sector would have to help provide it. The underlying message was that private companies would be encouraged to build toll roads.

What may prove harder to swallow is the government's other announcement. At a London traffic congestion conference last month, John MacGregor, the UK Transport Secretary, fired what appeared to be the first shot in a campaign to soften up attitudes in readiness for the introduction of electronic road pricing in urban areas later this decade.

The big difference between this kind of road pricing and motorway tolls is its motives. While the purpose of motorway tolls is to

increase the supply of road space by raising money for roadbuilding, the purpose of road pricing is to reduce demand for road space by pricing people off the roads. Understandably, the latter is likely to prove an extremely sensitive political issue.

For that reason, the technology of urban road pricing will be crucial. Any system will have to win public acceptability to stand a chance of winning political approval. That means it will have to be seen as fair, easy to use, difficult to outwit, and respectful of civil liberties.

Experience abroad is of little help. The only fully-fledged urban system in the world today is in Singapore, where motorists have to buy a daily or weekly permit to drive into the city centre in peak periods. Permits are checked visually by police at the city's 29 entry points.

In theory, that system could be replaced by an electronic one using existing tollgate technology. On the Dartford Crossing, east of London, for example, vehicle owners can open an account with the operating company and have it debited electronically each time they use the bridge. A matchbox-size device in

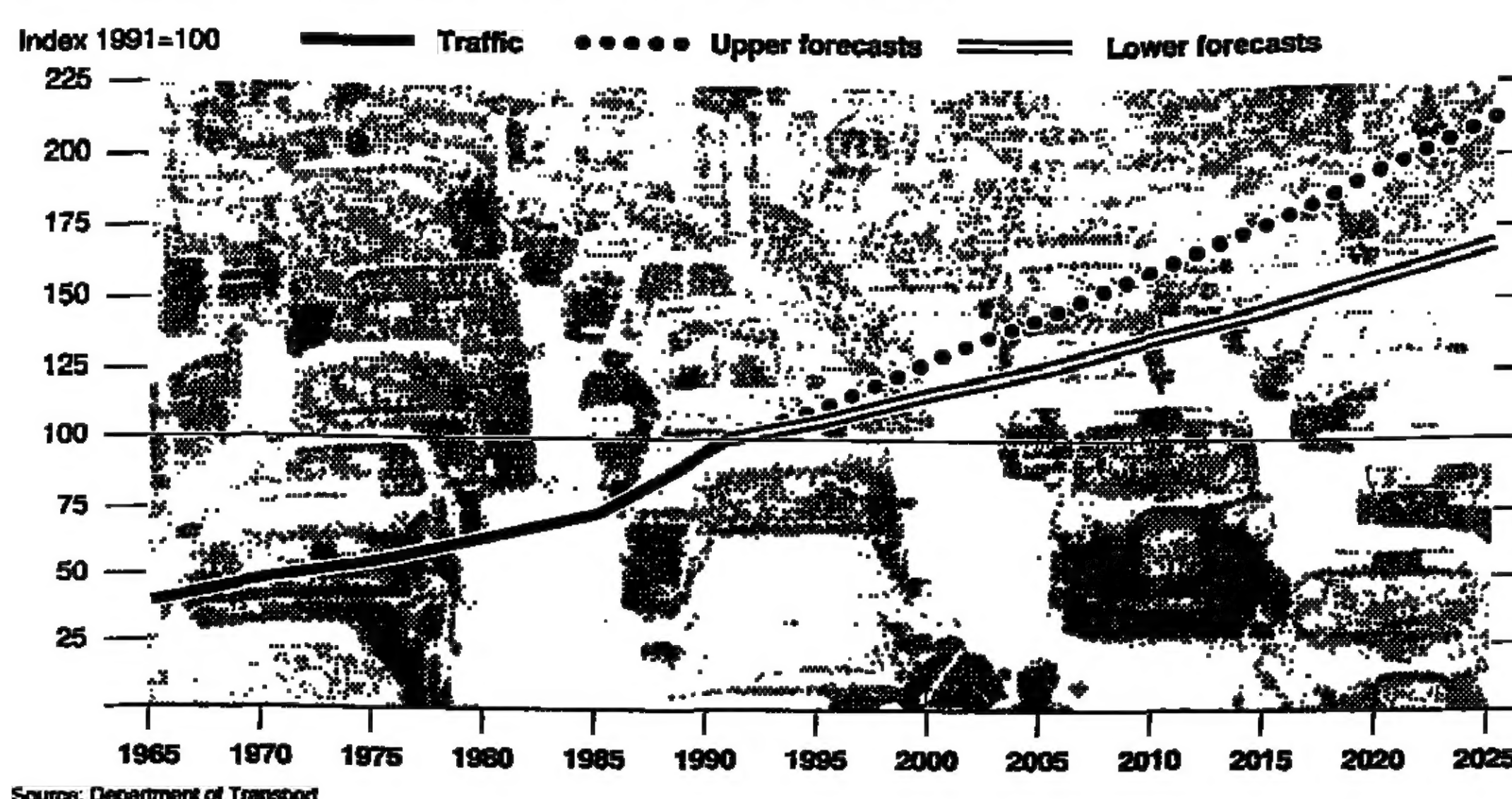
their windscreen is read by a roadside beacon and opens the tollgate automatically if the owner's account is in credit.

But borders around cities, electronic or otherwise, suffer several disadvantages. One is that they create undesirable cordon effects - for example, encouraging people to dump their cars at the border or divert around it on unsuitable roads. Worse, they are simply unfair, for they impose the same charge on someone momentarily crossing the border as on someone spending the whole day driving around the most congested areas of the city centre.

A better system was that tested in Hong Kong in the early 1980s. Cars were fitted with electronic number plates which were read by electronic loops in the road surface, and motorists were presented with bills according to their use of the roads. The experiment failed, however, because of people's concern that the technology could be used to trace their movements.

Two systems under development in Britain today have sought to overcome this objection by avoiding

## Forecasts for all UK motor vehicle traffic



Source: Department of Transport

the need to record where vehicles have been. One, congestion metering, is being developed for Cambridgeshire County Council by the universities of Newcastle and Northumbria. The other, called Timezone, is being developed by GEC-Marconi, the aerospace and electronics arm of Britain's General Electric Company.

Congestion metering, devised as a means of countering acute congestion in Cambridge, is aimed at discouraging people from using scarce road space at the busiest times by charging drivers.

Vehicles would be fitted with meters that monitored their progress through traffic. Any vehicle stopping four times or more within any half-kilometre stretch, or taking more than three minutes to

cover that distance, would start clocking up units.

Drivers would pay for the units with pre-paid smartcards which would be inserted into the meter and debited as the journey progressed. If the meter ran out, a linked device would cut off the fuel supply - though an overdraft of, say, 50 units would be allowed to give people time to buy new cards.

Normally dormant, the meters would come into operation when activated by microwave signals from roadside beacons at entry points to the city. Similar signals would switch the meters off at exit points.

People without meters would have to buy day passes at slightly more than the average cost of a metered city centre journey. These

would also respond to roadside beacons. Any vehicle failing to respond would have its registration plate automatically photographed by roadside cameras so drivers could be traced and penalised.

Timezone, too, would require vehicles to be fitted with in-car meters charged up with smartcards and brought into operation by radio waves. But in this case, transmitters would be installed not just at the entry to the city, but throughout the charging zone, with the meter responding to the nearest transmitter.

A city like London would probably have several zones charging different rates according to the degree of congestion. Charges could also vary according to the time of day.

If a vehicle ran out of credits, the roadside transmitters would sense this and automatically report the vehicle's registration number to the authorities. But GEC-Marconi emphasises that registration numbers could not be detected as long as meters remained charged.

People entering the charging zones without Timezone devices would have their registration plates photographed with a view to penalisation. But visitors buying temporary passes would have their registration numbers passed on to the computer which would then ignore the photographic record.

What the government thinks of these competing systems will become clearer when the Department of Transport publishes its report on the technological options for road pricing early in 1993.

That will be just an interim report; the results of the government's full investigation into road pricing are not due until 1994. Even so, the writing seems to be on the wall for free motoring.

John Griffiths

Alan Jabez

## Streets full of chaos

More in-car information may cut stress by enabling drivers to avoid crowded routes and car parks, but it could also boost chaos on the roads.

Worried that motorists could be swamped by data on anything from traffic snarls to local places of interest, the UK's Department of Transport has commissioned a code of practice on car telephones, in-vehicle computers and sophisticated route guidance systems.

With so much data, drivers could face a battery of dials and displays similar to a small aircraft cockpit. But unlike a pilot, they will have only a split second to scan the screens and take in the data.

The DoT agrees that additional real-time information will benefit motorists on increasingly busy roads, but it does not want them crashing into each other as they follow detailed electronic maps.

Jane Robertson, senior project officer at ICS Ergonomics, Loughborough University, which is doing the DoT research, says the code, available in draft form early in the New Year, will look particularly at the new hardware likely to distract a driver from more than the briefest glance. The team will assess such factors as the size of display screens, the number of words in a display, the duration of messages and the presentation of graphics.

It will also look at the positioning of the hardware in terms of field of vision, as well as whether drivers need to stretch from their seat to reach the controls or see the displays. Additionally, Robertson says the type of materials and the use of different types of controls also need to be addressed.

Without proper guidelines, she says manufacturers could produce hardware with rough edges or inappropriate materials, resulting in drivers receiving severe body damage if an accident occurs.

Peter Williams of the DoT's driver information unit says the code will be voluntary but expects all manufacturers will be keen to follow it for their own marketing.

He claims the DoT is the first national transport department in Europe to conduct such research, although the idea has been welcomed by other transport offices.



BMW's C1 prototype: has the same protection in a head-on impact as a small car

## BMW's city hybrid

BMW has just unveiled a potential and partial solution to traffic congestion, calling it "a blend of the obvious and a little original thought".

The German car and motorcycle maker is putting forward its C1 prototype as a possible way of taking advantage of the road space and journey time-saving merits of the motorcycle, without the rider being excessively exposed to the usual safety hazards.

BMW claims that the C1, which has an aluminium space frame with built-in front and rear crumple zones, has the same protection in a head-on collision as a small car. It is fitted with a car-type seat, safety belts and roll-over hoop.

Despite suggesting that a helmet could be regarded as superfluous, even Munich-based BMW acknowledges that the C1 is much like any other motorcycle in the event of a side impact.

In practical terms, the wind protection and overhead structure, plus the seating arrangement and 50 litres of luggage capacity, are claimed to eliminate vulnerability to most weather conditions.

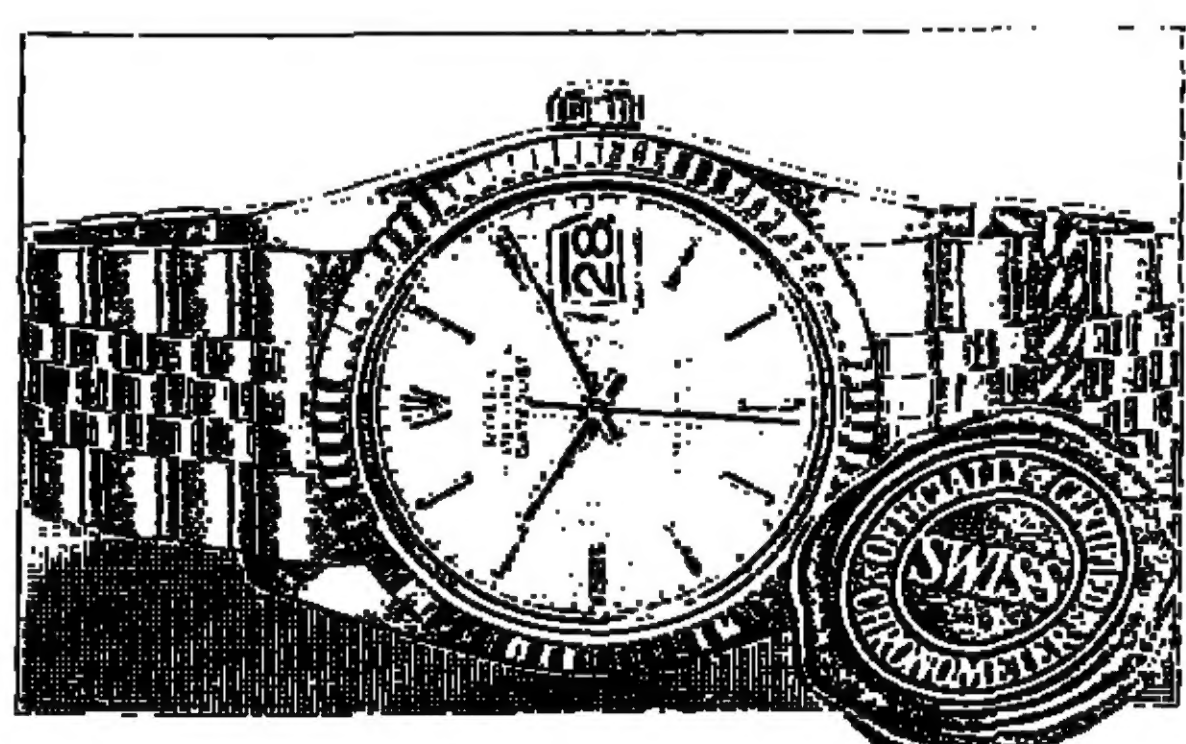
BMW acknowledges there is "not much chance" of the C1 going into commercial production, but this is not wholly ruled out. BMW's 21 plastic-bodied sports car began life as a similar off-beat concept but was eventually put into limited production.

John Griffiths

Alan Jabez

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FINANCIAL TIMES

Perrier battle ends with something for everyone

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(The government agency privatising eastern Germany property)

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# Streets full of chaos

More in-car information may cut stress by enabling drivers to avoid routes and car parks, but also boost chaos on the

and that motorists could be hit by data on anything from maps to local places of interest. The Department of Transport has commissioned a code of practice for in-car computers and sophisticated navigation systems.

With much data, drivers could be hit by a small aircraft cockpit. As a pilot, they will have split seconds to see the and take in the data of a screen that additional information will benefit it does not want them into each other as they

Robertson, senior project manager, says the code of practice will be particularly important at the time when the first of the new cars will be on the roads. The code will set out the minimum standards for the presentation of maps and graphics on the screen in terms of colour, as well as a standard for the controls on the screen. Robertson says the code will be a type of materials and the minimum types of controls to be used.

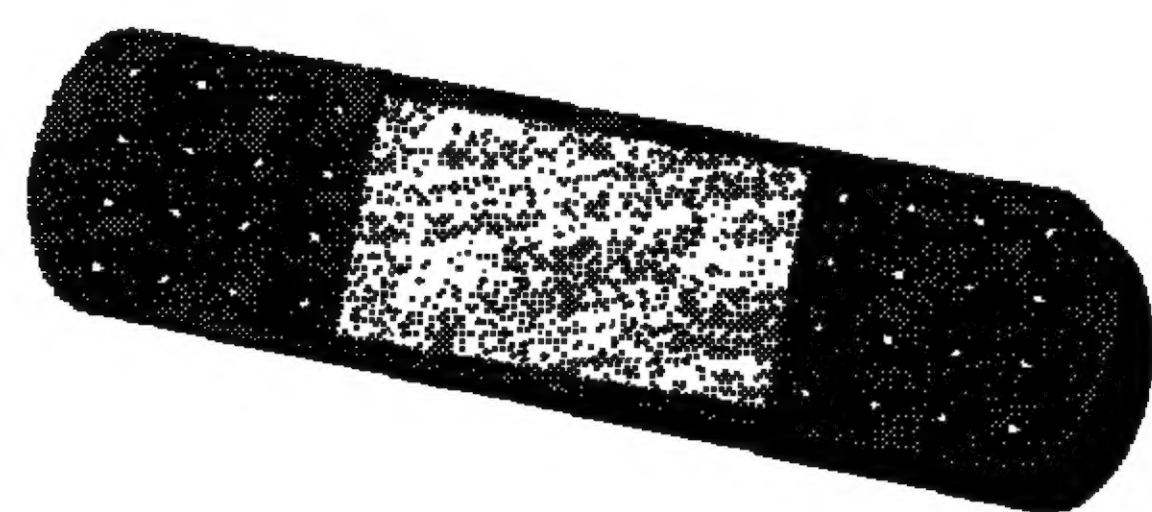
At the time guidelines for manufacturers could prove useful in the event of a crash, resulting in a more orderly scene.

At the time of the DoT's consultation, it says the code of practice will be particularly important at the time when the first of the new cars will be on the roads. The code will set out the minimum standards for the presentation of maps and graphics on the screen in terms of colour, as well as a standard for the controls on the screen. Robertson says the code will be a type of materials and the minimum types of controls to be used.

Alan Ibbett

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## MANAGEMENT: MARKETING AND ADVERTISING

Gary Mead looks at two motor manufacturers using a similar approach to sell very different types of car

# High rollers and basement bargains

What can you buy for £87,549.25? When it comes to motor cars, that will pick up the cheapest Bentley from Rolls-Royce, or just about 13 bottom of the range models from Proton, the Malaysian manufacturer.

From the highly expensive to the unashamedly bargain-priced, both manufacturers face a tricky marketing problem. How do they identify, target and ultimately persuade their relatively small markets - less than 1 per cent of the UK market in each case - to buy their vehicles during some of the most adverse trading conditions for the motor industry of recent years?

The answer is that both Proton and Rolls-Royce have adopted an advertising approach which, while different in style, tries to reassure rather than cajole potential buyers, offering them security in the purchasing decision rather than pushing hard-sell techniques.

The two manufacturers are very different. Proton, which only started marketing its cars in the UK in 1989, is a Japanese-Malaysian hybrid aiming itself solidly at the purchaser who wants a family-sized car at a small price.

Since producing its first car in 1904, Rolls-Royce has developed an image as quintessentially the last word in expensive and exclusive British craftsmanship, with more than 60 per cent of all the cars it has ever made still roadworthy.

When it comes to marketing, Rolls-Royce has long maintained a brand image of exclusiveness, but latterly that had taken on a feel of aloofness. The company is sensitive to criticism that its product is perhaps out of tune with austere times and that its recent image has become tainted with somewhat vulgar "new" rather than quality "old" money.

But the impact of collapsed sales in 1991 - down to 1,722 units from 3,333 in 1990 - meant that the company needed to rethink both production and marketing strategies.

It has brought costs into line with sales by shedding 35 per cent of its workforce over the last two years. Michael Donovan, commercial managing director, says its break-even point is now "way south of 1,500 units a year". Donovan argues that as far as profitability goes, the company has turned the corner.

But image is still a vital asset requiring careful nurture. In July Rolls-Royce hired a new advertising agency, Edwards Martin Thornton, to brush up its image through a press advertising campaign between August-November. Bob Edwards, managing director of Edwards Martin Thornton, says: "There was a perception that their technical prowess was lacking. That had little to do with Rolls-Royce, rather it



There is a Rolls-Royce for those who wish to stay in touch with the real world.

Both Proton and Rolls-Royce have adopted an advertising approach which tries to reassure rather than cajole potential buyers, offering them security in the purchasing decision rather than pushing hard-sell techniques.

was competing manufacturers who began stressing technology, whereas Rolls-Royce had never actually made a case for technology.

Donovan says that almost 80 per cent of Rolls-Royce and Bentley owners say they are going to buy another. But despite that loyalty, Rolls-Royce had become vulnerable to a combination of developing technology, consumer mood change and some clever advertising.

Edwards says that competitors, particularly in the US, attacked Rolls-Royce at its weak spots: price and image. "The price gap was perceived to be widening. That was true to some extent but exaggerated," he says.

"Cars like Lexus (from Toyota) were coming on to the market with an on-the-road price in the US of about \$40,000 (£26,300), with features which were arguably comparable with Rolls-Royce. And the emotional side of the Lexus campaign - the advertising headline in the US

was 'Flaunt your intelligence, not your wealth' - was perfectly capturing a new mood.

"Rolls-Royce does not sit comfortably in the new recessionary atmosphere, particularly at the corporate level when you have to report losses to shareholders."

Edwards, rather rarely for an advertising executive, holds a fairly commonsense view of the limits to advertising. "We said (to Rolls-Royce): 'An advertising campaign can't change those sorts of values, but what you can do is at least say something and have a point of view. If you remain silent, then you are effectively saying all that is true. This is not a time to be irresolute. We told them not to apologise for what they are trying to do.'

Next week Rolls-Royce will meet Edwards to assess the success of the press campaign, which has cost around £350,000. Even if Rolls-Royce decides to pause from advertising,

other means of marketing will continue.

Donovan declines to discuss what his marketing budget is but points out that advertising is not more than 10 per cent of total marketing spending.

"We use sporting events sponsorship and personalised advertising," he says. "We jointly run sponsored events at the Hong Kong jockey club, and sponsor yachting and polo events in US and Japan. In September in the US we ran an event at the normally closed Forbes estate, because the Forbes family are owners of our products, at which we shared with them our customer base."

"It was a weekend event which gave people an opportunity to experience a piece of North American success that they, even though they are wealthy and successful themselves, may aspire to."

Far from the Forbes estate end of personalised marketing lies Proton Cars UK, the local agent for the

Mitsubishi-engineered, Malaysian-styled range of Protons. In the UK Proton has adopted a classic approach to press advertising - lots of detailed copy which tries to answer every conceivable question a customer might pose - in complete contrast to the cool confidence of the Rolls-Royce campaign.

Proton's UK sales were 14,000 in 1991 and will reach about 15,000 this year. David Brown, founder, chairman and chief executive of Proton Cars UK, expects annual sales of 20,000 by 1995.

While there are no plans to sell the cars in North America, Brown will start marketing (through a separate company) the Proton range in continental Europe in 1994, with estimated sales of 25,000 in the first full year.

In the UK Proton still benefits from full exemption from import duties, an advantage which runs until the end of 1993. At its plant outside Kuala Lumpur Proton aims to be producing 150,000 units by 1995; the company has acknowledged that its export drive is vital to its continued success, one reason behind Proton UK's estimated £2m advertising spending in the year to June 1992.

Although at almost opposite ends of the price range, there are common elements in the marketing strategies of both Rolls-Royce and Proton.

Proton's marketing makes great play of offering a package of value-for-money extras such as zero interest on financing, two years' free insurance cover and a six-year mechanical warranty.

Brown says that in addition, "a very aggressive dealer network, with dual franchising arrangements with other dealers such as Ford, Volvo, Rover and Saab giving the customer personal service and back-up" aims at reassuring customers.

For both Proton and Rolls-Royce, future successful marketing thus appears to lie not so much in revolutionary new advertising but in achieving harmony between costs and sales, as well as ensuring that their respective messages are correctly targeted.

For Donovan, "it's not an elephant gun, it's a night-vision sniper approach to identifying prospective owners and putting to them our proposition, bringing them together to a point of marriage rather than a point of sale."

Though Brown eschews that romantic metaphor, he also views marketing techniques as being fundamentally about reassurance rather than persuasion, showing "a well-built, quality vehicle at a great price. A car which is not pretending to be state-of-the-art, up-to-date, not leading-edge technology but aimed at the family man."

## Lobbyists fight smoke with fire

By Victoria Griffith

The latest anti-smoking campaigns in the US are setting a new standard for public health messages by using the imaginative treatments normally reserved for food, drink and perfume.

"We finally decided to attack the tobacco industry, not by throwing boring facts at the public, but by attacking them on their own battlefield - image," said Paul Keye, chairman of Livingston and Keye, the advertising firm that put together a particularly successful campaign in California.

One problem with public health campaigns in the US is that they have lacked the funds to hire top advertising talent. As a result, public health messages were often seen as "preachy" slots which viewers soon forgot.

New laws in Minnesota and California, however, have added hefty taxes - around 25 cents a pack - to cigarettes, to fund an anti-smoking campaign. Massachusetts may soon follow suit.

The California effort began with a \$199m (£131m) anti-smoking budget in 1989 and 1990, \$28m of which was spent on a media campaign. That may not be much compared with the \$300m the tobacco industry spent on marketing in the state over the same period, but it allowed the anti-tobacco lobby to tap top advertising firms for the first time.

Keye, who was chosen to head the campaign, admits there was a temptation to stick to the old formula of dishing out the facts. "We tested one commercial in which we strung together images of famous movie stars smoking - like Humphrey Bogart and Joan Crawford. Then, at the end of the commercial we told the viewers: 'These movie stars all died of smoking.'"

It did not work. "When we tested the ad, all the viewers, including

the non-smokers, seemed to walk out with the overwhelming urge for a cigarette. That's when we realised that the image factor completely outweighed the facts we were putting out."

A new strategy was obviously needed. "We decided that if image is what matters, our main goal would be de-glamorisation," said Keye.

Central to the new campaign was an all-out attack on the tobacco industry to create a villain in the anti-smoking struggle. "One problem in reaching young people through health service messages is that they tend to rebel against being told what to do," said Keye.

Quercy, chief of the media unit at the California Department of Health's tobacco control programme, "The new message was: 'These terrible, greedy people in the tobacco industry are trying to get you to buy cigarettes and make a profit at your expense. Are you going to let them do it?'"

The result was a series of messages, one of which featured

tobacco industry executives laughing in a smoke-filled room about how they were duping the public. Other commercials concentrated on the harm of second-hand smoke; one featured rap music and another an off-putting image of a woman smoking in reverse - with all the smoke being pulled into her mouth.

The new approach yielded impressive results. Viewers' awareness of the campaign reached 87 per cent at its peak in some population segments.

In two years smoking in California was reduced from 26 per cent of the adult population to just 21 per cent.

Those involved in the campaign believe its success will encourage other public health lobbies to adopt the same formula.



## PEOPLE

### General Electric woos Scholey

Sir David Scholey, chairman of S G Warburg, has underlined the close ties between one of Britain's biggest industrial companies and its premier merchant bank, by accepting a non-executive directorship of The General Electric Company.

Sir David, 57, is one of two new faces in the GEC boardroom. Sir Christopher Harding, 53, chairman of BET and a long-time director of Hanson, has also joined the board. Meanwhile, Dr Tony O'Reilly, 56, the Irish-born entrepreneur who heads the H J Heinz Company, has resigned after two years as a GEC director.

The appointment of two powerful non-executive directors to the GEC board - Sir David is a director of BT and Sir Christopher is on the boards of English China Clays, Slough Estates and Newarthill - is likely to be welcomed by the City. Although Lord Wein-



stock, the 68-year-old managing director who has dominated GEC since the early 1960s, has given no indication when he will step down, there was some concern about his successor.

Non-executive directors were already in a majority on the

GEC board, and the two new figures will lay to rest any doubts that the rest of the GEC board is strong enough to stand up to Lord Weinstock on the succession issue.

The links between Warburg and GEC go back a long way. Sir Ronald Grierson, who was involved in the company's early development, was a Warburg director for many years and only stepped down as GEC's vice chairman just over a year ago. Lord Weinstock's son, Simon, worked at Warburg before joining GEC in 1983 and Warburg is a financial adviser to GEC.

Lawrence Urquhart, 57, chief executive of Burmah Castrol, and Peter Middleton, 51, chief executive of Lloyd's of London, have been appointed non-executive directors of BAA. Meanwhile, Denis Cassidy, 62, a non-executive director, is retiring as a non-executive director.

### Sailing by to IMI

Alan Emson, who has just been named as the new finance director of IMI, says he feels like a sailor returning to the sea. "It is very nice to be back in engineering," says Emson, 49, who is remembered by the City for his part in the vigorous but ultimately unsuccessful defence of Birmid Quilcast from the hands of Blue Circle.

The Birmingham engineering group, which analysts regard as tightly managed and well-positioned for economic recovery, has traditionally looked inside for promotion, but this time there was no suitable internal candidate to replace Gordon Taylor who is retiring, at the age of 60, after 5 years as finance director and 24 years at IMI.

Emson is remembered for preserving his cool during the Blue Circle bid - which in 1988 was declared successful only for the result to be reversed when the votes were recounted. Answering the phone with the comment "Hello, deputy escapist speaking", when Blue Circle ultimately achieved its target the following year, in a deal analysts characterised as very favourable for Birmid shareholders, Emson left to become finance director of motor dealership Evans Halshaw. He now explains that move as being largely determined by his wish to stay in the Midlands despite several approaches from London-based public companies.

He says the style of management at IMI - "conservative but granting a lot of autonomy to the divisions and subsidiaries" - is very similar to the old Birmid Quilcast culture, in which he spent 18 years, the latter 12 as finance director.

Emson is replacing Charles Cameron, 36, finance director of the Midlands and the specialty vehicles divisions.

Euromed International - Peter Hilliard has been appointed head of global precious metals; and Chris Lambert head of precious metals, London, at BARCLAYS METALS GROUP.

Barth Hughes has been appointed chief executive of Societe Generale Equities International.

Oliver Baker has been appointed to the board of CAMPBELL LUTYENS HUDSON & Co.

### Reshuffle at BTR Nylex

Geoffrey Vincent, finance director of BTR's important Australian operation, has resigned little more than a year after he took up the post. He is being replaced by Andrew Selman who has been with the BTR Nylex group for more than a decade.

The resignation of Vincent is part of a boardroom reshuffle at BTR Nylex which is 52 per cent owned by BTR and ranks among Australia's top half dozen companies. Kathleen

O'Donovan, who took over as finance director of the UK parent last year, is joining the Australian company's board and Peter Robinson, chief executive of the packaging and building products group, has been promoted to the new position of chief operating officer of BTR Nylex.

It was unclear why Vincent had resigned but London analysts did not think that his departure indicated any change in the underlying

performance of BTR Nylex, which has defied the recession better than many local companies. It currently contributes over a quarter of BTR profits.

One analyst said that appointing a chief operating officer at BTR Nylex mirrored what BTR itself had already done. Although BTR prides itself on having one of the flattest management structures of any large company, it felt last year that the growth of its business made it necessary to have a chief operating officer and it appointed Bob Faircloth to the position.

### Looking for gold dust

Steve Shirley, probably the computing services industry's best known female entrepreneur, has found a new diversion as she continues gently to disengage herself from FI Group, the privately-held software company she founded over 30 years ago.

She has been appointed a part-time board member of AEA Technology, the services company which used to be the UK Atomic Energy Authority and which this year made a profit for the first time in five years.

This marks Shirley's first directorship of a major company outside FI and her extensive international business experience is expected to accelerate the operation's transformation from government

agency to commercial organisation.

Yesterday she described the company as "totally professional at every level, but it does not yet have enough of a service culture. In the past, the emphasis has been on cost containment; it has to be shifted to income generation."

She clearly relishes the challenge. "There is gold dust in there," she enthuses. Her experience of FI Group is also expected to help AEA develop a more participative style of management.

Shirley has been president of the British Computer Society and is, this year, Master of the Worshipful Company of Information Technologists, the 100th livery company to be formed in the City.

### Finance moves

Henrik Bjorn, head of corporate banking, has been appointed chief executive of UNIBANK in London.

Gordon Waddell has been appointed chairman of the TOR-INVESTMENT TRUST on the resignation of John Wooliam.

Yoshio Furuse, formerly director and general manager of the international planning department of SUMITOMO BANK in Tokyo, has been appointed director and general manager of its London branch; he succeeds Masahiko Koido, who becomes general manager of the main office in Osaka.

Amos Cobb has been appointed executive vice-president, strategy, for VISA INTERNATIONAL in Europe, Middle East and Africa; she moves from

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KLM is playing Santa Claus. Because this autumn, KLM's 'World of Difference' loyalty programme offers you double points on all European flights of KLM, KLM Cityhopper and Air UK.

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Dance  
My  
Father's  
Vertigo

Clement Crisp

The Contemporary Dance  
is at Sadler's Wells  
with this programme  
until December 3.

INTERNATIONAL  
ARTS  
GUIDE

WINTER

Nov 20-21 Georges  
Dance Theatre  
Nov 22-23 Georges  
Dance Theatre  
Nov 24-25 Georges  
Dance Theatre  
Nov 26-27 Georges  
Dance Theatre  
Nov 28-29 Georges  
Dance Theatre  
Nov 30-1 Georges  
Dance Theatre  
Dec 1-2 Georges  
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Dec 3-4 Georges  
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## ARTS

Cinema/Stephen Amidon

## Inspired exercise in bad taste

Theatrical agents seem to be reading out the script for the first time.

*Slacker* is the sort of film that achieves cult status by telling the disaffected young that their rebellion is somehow different, somehow more justified, than the uprisings of preceding generations. Set in and about the dreary college town of Austin, Texas, Richard Linklater's drama-documentary charts a day in the life of a group of

DEATH BECOMES HER (PG)

Robert Zemeckis

THIS IS MY LIFE (12)

Nora Ephron

SLACKER (15)

Richard Linklater

THOUSAND PIECES OF GOLD

Nancy Kelly

ELECTRIC MOON (15)

Pradip Krishen

jobless, aimless 20-year-olds as they drift among the city's coffee houses, bedis and bars.

Despite its problematical premise that "withdrawing in disgust is not the same as apathy," the film has considerable charm and real style. Linklater has a wonderful ear for the dialogue of the dispossessed - his wandering characters are often captivated as they opine about Madonna, Elvis, political assassinations and Chaos Theory. They keep you on the edge of your seat by virtue of the fact you never know what they will say next. (You do know what they will do, though - nothing.) They all suffer from a sort of spiritual Greenhouse Effect, in which insulating values and ideologies have been baked away by an overheated, intellectually noxious culture. The only character seen

hard at work is a young man who has locked himself in a roomful of televisions for four years, intent on watching everything.

Fans of Godard and Wayne's World will find much to treasure here, though ageing hippies and other fogies may well feel like the character who, when asked to come to a party, declines by explaining he has "less important things to do" than engage in "premeditated fun."

Another independent effort from America is Nancy Kelly's *Thousand Pieces of Gold*, which details the life of a young Chinese woman who is sold into slavery by her father. She is transported to 1880s Oregon, where her "master" tries to make her a whore. She rebels against her fate and soon finds herself involved in a difficult relationship with a Civil War veteran.

The film is handsomely shot and features a spirited performance by Rosalind Zhao in the lead role. Despite the timely agenda of feminism and an ethnic rethinking of America's western heritage, however, director Kelly's film turns out to be a rather standard melodrama, complete with poker games in a smoky saloon and bad guys with scruffy beards. The hero may be a heroine, but she still rides off into the sunset, her best guy at her side.

*Electric Moon* is another culture clash film that never works up enough steam to make for a real collision. It is set in an Indian resort where Westerners come to experience the real East, only to be duped by the owners, who secretly use stuffed tigers and fake bird calls to convince their guests that they are in some primitive paradise. Director Pradip Krishen's film is an occasionally insightful glimpse into the way people cannot see forests for trees, though its worthiness is undercut by an often tedious pace.



Goldie Hawn, back from being dead in 'Death Becomes Her'

Dance  
My Father's Vertigo

The trappings which surround Amanda Miller's *My Father's Vertigo* for London Contemporary Dance Theatre - an incomprehensible title, a portentous programme note about "the need to dwell" - are fire-some. They reflect something of the taste current in Frankfurt, where Miss Miller (American-born) works with William Forsythe's company. And, as with Forsythe's works, this obscuration seems a play to disorientate the viewer. Yet what we saw on Tuesday, when LCDT gave the piece its first London showing, was choreography of real interest.

The score is an atmospheric string quartet by Fred Frith: music that shimmers, is haunted by echoes and odd glissandos beneath its melodies. Miss Miller's writing (for a cast of five men and six women: uniformly excellent) stresses a sinuous, smoothly muscled language that can look at moments as if action is slowed down, its fluidity almost oily, its pulse irregular as movement slips forward and seems on the point of losing balance. As with Forsythe's work, there is emotionally potent lighting which shifts our perceptions about the dancers through arbitrary change. (There are also hints of the greyness favoured in Frankfurt in the costuming of men in grey tops, black trousers, women in grey frocks, black stockings.)

The dance style is unified by its insistence on flowing activity, even if its incidents do not at first seem to cohere. Yet as ideas are repeated, transferred among the cast, the choreography tells of a concern with how energy may move through a body, how muscular force is expended. The music's second movement proposes contrasting quarters for men and women, each with an observer watching from "outside" the action as a dynamic and emotional counter-weight. A later duet between Andrew Robinson and Tom Ward is a fascinating conflict between opposing physiques. Towards the work's end, odd activity - Kenneth Truitt indulging in mute and mimed conversation - seems set to distort the mood. And with every switch of action, Miss Miller's movement world remains intriguing.

Visually the piece is austere, very well lit. The spectral appearance of what I take to be a head of a woman by Titian on the grey game backdrop is curious, but curiously effective. In matter of composition, *My Father's Vertigo* offers a subtle sense of form and language. It is a bold addition to the repertoire, and, as I have mentioned, is danced with grand assurance by its cast. This second LCDT programme also includes Mark Morris's *Motors* - its dancing still not quite quick enough in musical response - and *Rikud*, last's years' brutish acquisition from Liat Dor and Nir Ben Gal, which I prefer not to watch.

Clement Crisp

London Contemporary Dance Theatre is at Sadler's Wells Theatre with this programme until December 5.

In 1980, Robert Zemeckis made a remarkable little black comedy called *Used Cars*, one of the most underrated films of recent years. Remarkable because it ended the sort of good natured bad taste so rarely seen on screen. Since then, of course, Zemeckis has trod the line and raked in the loot, becoming the highest grossing director of all time with films like his *Back to the Future* trilogy.

With *Death Becomes Her*, Zemeckis makes a welcome return to his early low standards. The film is an inspired exercise in bad taste that should appeal to everyone who has ever paid good money to see a freak show or rubbernecked at a traffic accident. It tells the story of an ageing movie star (Meryl Streep) who makes a Faustian deal with a magician (Isabella Rossellini) to regain her youth. The potion she drinks gives her eternal life, which comes in handy when she is murdered by her husband (Bruce Willis) and his lover (Goldie Hawn). She returns to haunt them, only to find that being a zombie has its drawbacks, especially when one of your intended victims is one as well.

It is not the story that is notable here, but rather the striking special effects Zemeckis uses to tell it. Streep's head is twisted backwards, smashed between her shoulders and knocked off its perch altogether; Hawn's midriff is ventilated by a shotgun blast. Both women then proceed to rot for the rest of the picture, winding up looking like microwaved marmosets. If the idea is to put people off the notion of eternal youth, it is singularly effective.

If the above sounds like too much to stomach, it should be noted that it is all done in a lighthearted, anarchic spirit. Zemeckis and his buddies at Industrial Light & Magic have made a cartoon using human bodies, capturing the fluidly violent form of the genre as well as its affable nihilism. In his last film, *Who Framed Roger Rabbit?*, Zemeckis perfected the art of placing human and animated figures in the same scene. Now, he has people behave as if they themselves were the cartoons.

"Stay here? In *Fal Vale Station*? Stay here all night?" Saul Hodgkin, the stationmaster, is portentously addressing six passengers who have been stranded without a train till tomorrow morning. He proceeds to tell the tale of the ghost train: "Twenty years ago, this very night..." You laugh at the melodramatic spookiness of it; but, of course, you want to know what will happen. These two reactions were just what was intended in 1925, when this play was new; and they must have been hard to bring off then. Harder today, though, because *Ghost Train* is now also a period piece.

Heightening our interest are the facts that the playwright, Arnold Ridley, later became known to every household as Private Godfrey in *Dad's Army*; and that the play was turned into a film (Arthur Askey et al.) in this revival, Bill Oddie

Andrew Litton brought his Bournemouth Symphony and Chorus, and an interesting septet of principals, to the Festival Hall for a concert performance of *Fidelio* on Tuesday. After a couple of Beethoven-less operatic seasons, any *Fidelio* is better than none, and the Bournemouth one was considerably better than that.

Litton has a nice, unshowy grasp of the score: sound tempo, duly accommodating of the voices, and excellent appreciation of Beethoven's long, tension-building piano passages, which premature surges always diminish. The orchestra played very well and the chorus were sturdy. Including the "Leonora no. 3" Overture in the place where Mahler intruded it, however - between the spouses' private reunion and the public explosion of relief - was surely a mistake.

That needs a theatrical justification, beyond the original plea for extra scene-

Theatre/Alastair Macaulay

## The Ghost Train

plays the stationmaster who must set the tone for what follows. He draws out the ghouliness of the big narration nicely enough. But for comedy he is underpowered and disappointing. He throws away numerous opportunities, and is altogether too subdued.

But the exquisite playing comes from his six passengers (one of whom is his real-life daughter, Kate Hardie, playing a newly-married happer). As a determinedly independent wife married with a husband from whom she plans to separate, Catherine Russell is interesting and silly at the same time - first-rate. Avril Elgar, as an indignant spinster, and Aden Gillett, playing a Bertie Wo-

ter-type oaf (with hidden depths), are both astonishingly like period cartoons comes to life. She seems to have been drawn by Robert Lancaster, he by Peter Arno. Richard Stirling and Owen Brennan, as the two husbands, complete this excellent group.

Were everything on this level, this would not seem a wispy play, Roger Butlin's set and Matt McKenzie's sound-effects are perfect. But the period quintessence now stops us from being the least bit scared. And the director, John Adams, seems to have rehearsed the first act best. Act Two says: The hardest role of all is that of the fey and neurotic Julia Price, who, around midnight,

invades the waiting-room, mysteriously drawn to the scene of the haunting, resisting the advice of friends and family. It is she who should draw the play to its climax of comic horror; and yet we should suspect her too.

We certainly suspect Sara Main-Thomas. For all the high accomplishment of her playing, she lacks the lightness of touch that would make Julia persuasive and/or amusing. She also plays the final turnabout too heavily. (There are several revelations in Act Three. Hers is the only one that fails to be hilarious.) And, as her loyal chum Susie, Jonathan Phillips, a regular favourite despite his tricky Venetian dialect - stands out just because of its length, amid all those pretty miniatures which are over within two or three minutes. Here the Bartoli impersonation of excitable Anzoleto, urging her gondolier on to victory, was sly and delectable; but she found whole little worlds of feeling elsewhere, even in the shortest songs.

The voice is lovely, softly burnished and phenomenally flexible (and accurate). With Bartoli Rossini's endless *fioriture*, which require some acrobatic effort from most modern singers and may easily sound like period-routine, become expressive elaborations of the

David Murray

Repeated in Colston Hall, Bristol, on December 3; sponsored by Barrow of Bristol, and Beales

## 'Fidelio' in concert

shifting time. Here it merely lengthened the performance of an opera which is notably concise, and postponed the human finale for too long. In any case, the homely, domestic aspect of *Fidelio* - its "Singspiel" side - faded with the place ment of the singers behind the orchestra. Fine for heroic voices (Leonora's and Florestan's); but deeply unhelpful for little Marzelline and Jaquino, and even old Father Rocco. As the green young pair, Linda Kitchen and the French-Canadian tenor Benoit Bontet were attractive and gracefully musical, and Donald McIntyre's Rocco suggested gruff depths, but from an awkward distance where the action wants to be cosy-cottagey.

## LONDON

## THEATRE

● The Gifts of the Gorgon: world premiere of Peter Shaffer's new play directed by Peter Hall, starring Judi Dench. Now in previews, opens Dec 16 (The Pit 071-638 8891)

● Trelawny of the Wells: Arthur Wing Pinero's play about backstage romance among the acting fraternity of late Victorian London. Opens Mon (Comedy 071-857 1045)

● Caroussel: National Theatre production of Rodgers and Hammerstein musical, directed by Nicholas Hytner, choreographed by the late Kenneth MacMillan. Now in previews, opens next Thurs (Lyttelton 071-928 2252)

● Cyrano de Bergerac: Robert Lindsay in John Wells' adaptation, directed by Elijah Moshinsky. In previews, opens Tues (Haymarket 071-930 8800)

● The Tempest: Yukio Ninagawa's Japanese-language version of Shakespeare's play. Tonight, tomorrow, Sat matinee and evening only (Barbican 071-638 8891)

● OPERA/DANCE  
Convent Garden Tonight, Tues, next Fri: Madame Butterfly with Yukio Ninagawa. Tomorrow, Sat: Ashton's *Les Biches*. Next Wed: Swan Lake. Next Thurs: Kenneth MacMillan's *Mayerling* (071-240 1068)

● Coliseum ENO repertory consists of Gilbert and Sullivan's *Princess Ida*, staged by Ken Russell and conducted by Jane Glover, and

Hansel and Gretel. Dec 16: new production of *The Adventures of Mr Broucek* (071-836 3161). Dec 8-Jan 2 at Sadler's Wells: London City Ballet (071-278 8916)

● CONCERTS  
South Bank Centre Tonight's Bartok programme in Royal Festival Hall is conducted by Bernard Haitink with violin soloist Viktoria Mullova. In Queen Elizabeth Hall, William Christie conducts Les Arts Florissants in works by Beethoven, Berg and Schoenberg. Next Tues: Madrid Classical orchestra plays works by Barber, Britten and Stravinsky (307 0100)

● PRAGUE  
● Jiri Belohlavek conducts Czech Philharmonic Orchestra tomorrow at Dvorak Hall in a programme including Gershwin's Piano Concerto (Ivan Klavsky) and Ives' Three Places in New England. Mon: Wiham Quartet plays works by Suk, Haydn and Janacek. Next Thurs and Fri: Gerd Albrecht conducts Dvorak and Brahms (288 0111) ● Sun in Dvorak Hall: Czech Radio Symphony Orchestra and Chorus in works by Beethoven, Berg and Schoenberg. Next Tues: Madrid Classical orchestra plays works by Barber, Britten and Stravinsky (307 0100)

● PASADENA ROOF  
Orchestra. Sat: Elgar programme with Robert Cohen soloist in Cello Concerto. Sun, next Thurs and Sun: Colin Davis conducts Sibelius' Kullervo Symphony (Sun), Seventh Symphony and Violin Concerto with Gidon Kremer (Thurs) and Second and Fourth Symphonies (Sun). Mon: Andrew Davis conducts concert performance of Nielsen's opera Saul and David. Dec 16, 17: James Galway. Dec 18: Soli conducts Bruckner. Tomorrow afternoon at Guildhall: Elisabeth

Söderström masterclass. Barbican's Scandinavian arts festival continues till Dec 13 (071-638 8891)

● MADRID  
Madrid Chamber Orchestra plays Bach concertos tonight at Auditorio Nacional de Musica. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra and Chorus in works by Beethoven, Berg and Schoenberg. Next Tues: Madrid Classical orchestra plays works by Barber, Britten and Stravinsky (307 0100)

● PASADENA ROOF  
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Wigmore Hall recitals

## Bartoli and Vollestad

As a Rossini mezzo, Miss Bartoli is more or less perfect. That was a good enough reason for devoting her whole Wigmore Hall recital on Sunday to Rossini. She had the enterprise and taste to stick to proper recital-songs, too, until her dazzling "Bel raggio lusinghier" (*Semiramide*) at the very end. (Her second encore was operatic too, and delivered with no less brilliant finesse: "Tanti affetti", from *La donna del lago*.)

Though Rossini's songs with piano are without exception charming, a programme given over to them may seem like a menu consisting entirely of hors d'oeuvres. Usually his little three-part cantata, or monodrama, "La regata veneziana" - a regular favourite despite its tricky Venetian dialect - stands out just because of its length, amid all those pretty miniatures which are over within two or three minutes. Here the Bartoli impersonation of excitable Anzoleto, urging her gondolier on to victory, was sly and delectable; but she found whole little worlds of feeling elsewhere, even in the shortest songs.

The voice is lovely, softly burnished and phenomenally flexible (and accurate). With Bartoli Rossini's endless *fioriture*, which require some acrobatic effort from most modern singers and may easily sound like period-routine, become expressive elaborations of the

most natural kind, easy and delicate. Were they not so exquisite, they would seem almost artless. We got a virtuoso display of them in five different settings of the same verse, "Mi lagnerò tacendo" - one of them in quintuple time! - each with its own unique inflections, tender or wounded or nobly reproachful.

What crowns Miss Bartoli's art in Rossini, however, is her irrepressible sense of humour. It glints mischievously through most of her singing: it is funny for a voice to be going through all those intricate hoops, and she shares the joke with us. Particularly infectious was her treatment of Cere's aria from an obscure cantata, which began with goddess-like frowns, melted into beatific satisfaction and finally went into exultant whoops. Almost a send-up; but faultlessly musical, and bewitching to hear.

For her first encore she switched to Mozart, the "Voi che sapete" from *Figaro*, offering it like the formal serenade which dramatically it is (Cherubino's well-rehearsed song to the Countess) - quite steady, beautifully liquid, without any effusive Viennese sentiment but subtly shaded at the edges. Coming between her triumphant "Bel raggio" and "Tanti affetti", it was doubly affecting.

David Murray

It was the encores on Tuesday that brought out the best in a young Norwegian baritone at his Wigmore Hall recital. For those who have invested in the music of the "Tender is the North" festival, there is the dividend of catching some of the most promising Scandinavian singers of the younger generation.

Per Vollestad made his recital debut in 1986 and has won good opinions for his song recordings since then. With music ranging from Greg and Rangström to standard Schubert and Schumann (the Op.24 *Liederkreis*) this programme was a decent showcase for his talents. Those include a friendly stage manner and a fairly strong, dark-bred baritone, which is shy about its top - when top notes beckoned, he offered a variety of ideas for how not to sing out.

There was nothing odd, however, about his delivery of Grieg's Op.48. Earlier indecisiveness was dispelled and these songs, set to German poetry including Heine and Goethe, were sung in a way that showed they have a grip on their texts, suggesting a more intellectual Grieg than we have met in the series so far. Vollestad's Rangström songs worked well, too. "Melodi" proved a real charmer, for which the singer can take some credit.

Richard Fairman

INTERNATIONAL  
ARTS  
GUIDE

## ATHENS

Concert Hall 20.30 Georges Pretre conducts Vienna Symphony Orchestra in works by Richard Strauss and Brahms. Sat: Grace Bumbry sings arias accompanied by Athens State Orchestra. Sun: Jeannette Piliou song recital. Next Wed, Thurs: Robert Tear sings Britten's *Les Illuminations*. Dec 18: Christa Ludwig (722 5511)

## BOLOGNA

Teatro Comunale 18.00 Riccardo Chailly conducts Pier'Alti's new production of *Gottterdammerung*, with Siegfried Jerusalem, Sabine Hass and Matti Salminen (repeated Dec 6, 9, 13, 15, 18). Dec 10: Lyon Opera Ballet. Dec 12: Carla Fracci ballet gala (529999)

## DRESDEN

Semperoper Tonight: Der fliegende Holländer. Tomorrow: Ariadne auf Naxos. Sat: Les

Contes d'Hoffmann. Sun, next Wed and Sat: Arabella. Tues: Der Freischütz. Dec 13: new ballet production including Hecate's choreography by John Neumeier (484 2731)

Kulturpalast Sat and Sun: Jörg-Peter Weigle conducts Dresden Philharmonic Orchestra in Berwald's Violin Concerto (Kolja Lesing) and orchestral extracts from The Ring (486 6308)

## FLORENCE

Teatro Comunale 21.00 MaggloDanza production of Coppelia choreographed by Evgeny Polyakov, daily till Dec 11 except Mon and Tues. Dec 17, 18, 19, 20: Zubin Mehta conducts Messiah (277 9295)

## GENOVA

Bolshoy Opera brings Borodin's Prince Igor to Teatro Carlo Felice for six performances this month, opening Dec 12. Bolshoy Ballet gives four performances of Giselle, opening Dec 18 (589329)

## THE HAGUE

Dr Anton Philipszaal 20.15 Jansug Kakhiadze conducts Hague Philharmonic Orchestra in works by Sibelius and Rakhmaninov, with piano soloist Mikhail Rudy (repeated tomorrow). Next Wed: members of Hague Philharmonic play Tippett's First String Quartet and works by Jolivet, Ravel and Prokofiev (360 9810)

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Super Channel 0700-0710, 1230-1240, 2230-2240 FT Business Daily 0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Ballin 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT Eastern Europe Report 2240-2248 FT Report

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CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 1900-1930 FT Business Weekly

Sky News 0130-0200, 0530-0600 FT Media Europe 1230-1400, 2030-2100 FT Business Weekly







## ECONOMIC VIEWPOINT

## EC — time for normal budget principles

By Samuel Brittan

The economic generalist cannot hope to rival the knowledge of the enthusiastic specialist. But occasionally studies made by analysts of a relatively unbiased outlook come to his rescue. Thanks to a Chatham House study by Sir Michael Franklin and an Institute for Fiscal Studies one by Stephen Smith, I am emboldened to enter the area of the EC budget, which has emerged as one of the most contentious issues for the Edinburgh summit, and express some ideas which are "European" without being communitarian in the Brussels dirigiste sense.

The EC budget is likely to amount to well over Ecu20bn in 1992. If you take off a fifth to convert it into sterling and add a fifth to convert it into dollars, you have a rough idea of its order of magnitude. It is limited to a ceiling of "only" 1.25 per cent of the combined gross national product of the Community — a proportion of GNP representing 4p on the basic rate of UK income tax.

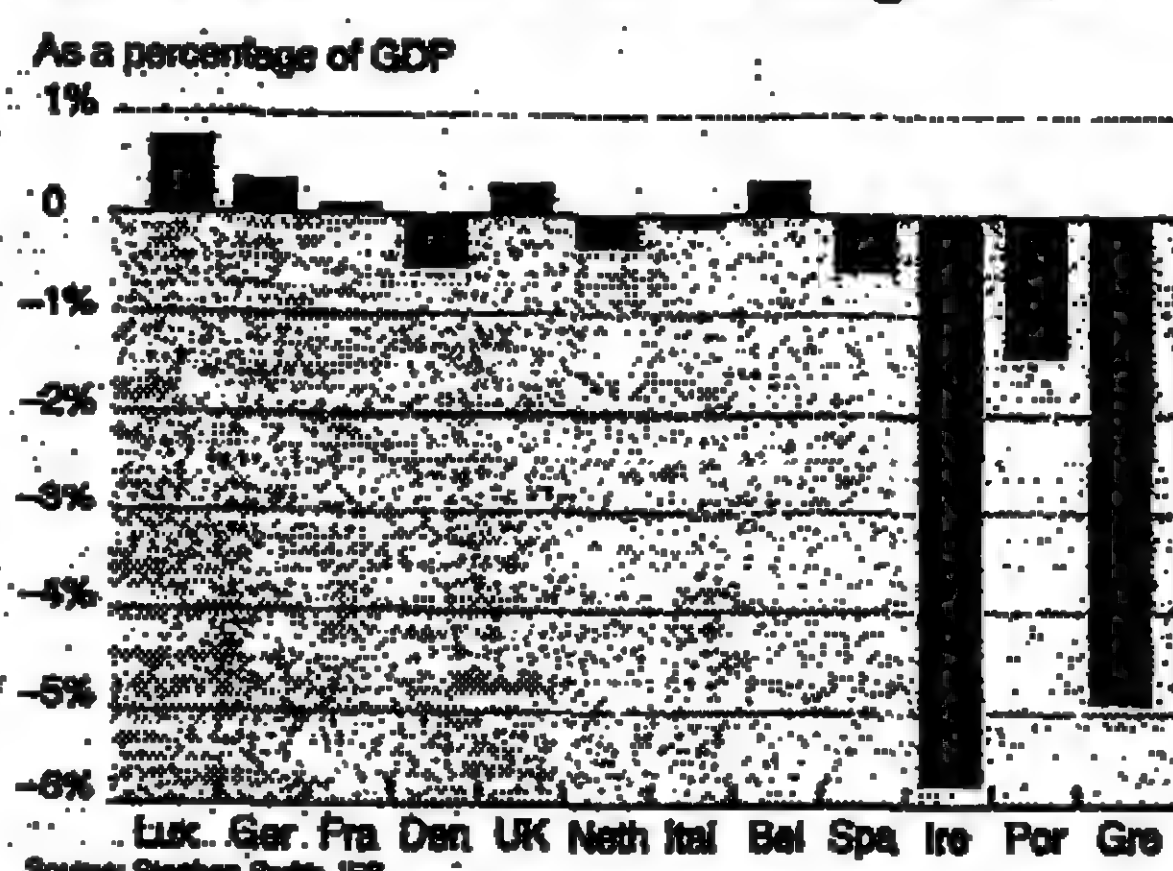
The Common Agricultural Policy still accounts for the lion's share of Community expenditure, although it is down from 30 per cent in the 1970s to 50 per cent. But Sir Michael fears that it may not fall much further for the remainder of the 1990s, as the reduction of price supports envisaged by the MacSharry plan will for a time be more than offset by an increase in direct grants to farmers.

The next largest item, accounting for nearly 30 per cent of the budget, goes to the Structural Funds, a combination of the Regional and Social Funds, the mere names of which cause Labour economic spokesmen to salivate with pleasure. The Regional Fund was originally conceived as a way of channeling money to the UK via its depressed areas. But the net gains turned out to be small and the Commission argued for greater discretion on the use of resources. Today Ireland is plastered with notices saying: "This project is financed from EC funds."

The traditional revenue source for the EC budget, customs duties and levies on imports, now accounts for only a fifth of EC income. Some two-thirds of total revenues now come from cash payments from governments. Member countries are taxed partly by a so-called VAT levy. This is a misleading name for a tax based on the proceeds of an imaginary VAT with a yield of 1.4 per cent on an agreed standardised basis. The deficiency is made up by direct contributions related to GNP.

The UK rebate is 66 per cent of the difference between its

Net contributions to the EC Budget 1990



EC budget 1992

Country	Before UK rebate	After UK rebate	GNP per head
Germany	8.5	9.0	118
France	5.0	3.0	95
UK	0.0	1.5	114
Netherlands	0.0	0.1	101
Net recipients			
Denmark	0.5	0.5	129
Italy	1.1	0.6	106
Luxembourg	0.7	0.7	173
Portugal	1.2	1.1	42
Belgium	1.7	1.6	105
Ireland	2.4	2.4	60
Spain	3.2	2.9	75
Greece	3.9	3.9	36

Source: Michael Franklin, FMA

share of attributed Community expenditure and an adjusted version of its VAT contribution. Other members contribute to the rebate in proportion to their share of Community GNP, with an alleviation of a third for Germany. Unfortunately, a British proposal in the early 1980s to seek a budgetary safety net of general application was rejected.

The sources of present tensions emerge from the table and chart. Luxembourg, which has the largest GNP per head

for EC membership, such as Sweden, Switzerland and Austria, are prosperous countries which should make modest net contributions. Czechoslovakia and Hungary can be financed from the net receipts of Efta applicants; and even Poland would not break the bank.

The Commission disputes the whole principle of net balance. It is said to be impossible to put a cash value on countries' non-budgetary gains from EC membership. A more convincing argument relates to

**A budget key would make Spain by far the largest gainer, without it having to build a single unwanted bridge**

by a suspiciously high margin, is a net beneficiary. The UK, with a slightly below-average GNP, is a net contributor even after the rebate. Spain has the highest legitimate grievance. Its GNP per head is put at 75 per cent of the EC average. But its net receipts amount to less than 1 per cent of GNP, much less than that of the other poor countries and not much more than that of Denmark, which according to the official statistics, is the second-richest member after Luxembourg.

All the main Efta applicants

the "Rotterdam effect". The Dutch contribution, for instance, is inflated by customs levied on goods shipped through Rotterdam even if they are destined for other members. Even more to the point: CAP purchases to maintain prices in any one country benefit all EC farmers.

The original Delors proposal was to increase the structural funds by about a half in net terms between 1992 and 1997 and increase the direct "GNP" contribution. This would provide the resources for yet

another instrument known as the Cohesion Fund for environmental or "trans-European" projects in the poorest states.

The pre-Edinburgh discussions look for a redistribution of expenditure and sources of revenue to rectify anomalies. The UK wants to maintain the present 1.25 per cent of GNP budget ceiling for another three years and then go up to 1.35 per cent in 1998-99. The Commission and the southern countries are prepared to stretch the timetable to 1999, but still want to increase the EC budget to 1.37 per cent.

This is hardly the issue to turn John Major into a national hero. Would it not be better, as Franklin suggests, to have an explicit budgetary key in which a corrective factor would be applied to overrule unadjusted budgetary transfers when they produced absurd results. Mervyn King, the present economic director of the Bank of England, showed in an earlier incarnation that a modestly progressive system of EC net payments would make Spain by far the largest gainer, without the Spanish government having to build a single unwanted bridge or dam to extract the cash from Brussels.

A corrective override would have enormous advantages. The Commission would no longer have, in Sir Michael's words, to "propose programmes, sometimes of doubtful efficacy, as the sole means of achieving transfers to poorer countries". Indeed a smaller budget could lead to larger redistribution — especially if the concept of negative payments were allowed. The UK and Spain would be treated under the same formula.

What are the obstacles to such a single payments key? Above all it is the desire of the Commission and its sympathisers in member governments to increase the EC budget for its own sake as a *communautaire* gesture. This is paralleled by the so-called reflation initiative, in which all the emphasis is placed on spending increases, national and Community, when a better effect might be obtained by a temporary tax cut, and where the gains from international co-ordination would be clearer.

A late-hour switch of UK attention from the size of the EC budget to an ability-to-pay formula would be regarded as an anti-EC gesture. But good ideas need not die and this one should be kept alive when it is discovered that neither Maastricht nor Edinburgh has solved the main problems of the Community.

*"The EC Budget, Royal Institute of International Affairs, London SW1; Fiscal Studies, Nov 1992, London WC1E 7AE."*

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL  
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## Attitude on castle style 'amazing'

From Mr Michael Manser.  
Sir, Your architectural correspondent applauded ("A foolish plan to reinvent Windsor", November 30) the renovation of run-down Windsor Castle by its "complete transformation" in the 1830s by Jeffrey Wyatville in the style of his time.

However, he then declared himself amazed that the Royal Institute of British Architects has reacted to the fire at Windsor Castle by suggesting that a distinguished architect of today should also respond to the fire in the style of his time.

Michael Manser,  
Manser Associates, architects,  
Bridge Studios,  
Riverside Bridge,  
London W6 3DA

## Statistics not reliable

From Mr Bohdan Skrobach.  
Sir, The use of economic statistics from the former Soviet Union in the article "Managing divorce between Moscow and Kiev" (November 23) is not a very reliable way to attempt to define future relationships of the new states.

The Soviet Union was a command economy. None of the republics was a national economy that controlled what it produced and where it was consumed. Inter-republic trade was a result of central policy and not "market" conditions. When the Soviet Union became obsolete so did its economy. New states, like Ukraine, will completely rebuild their economies. They certainly will have little resemblance to their past.

It is therefore impossible (using Soviet data) to forecast how the economic spheres of the states should or will develop, just as no one could have foreseen the reconstructed postwar Japanese economy produce major links beyond Asia.

Bohdan Skrobach,  
35 Sherwood Avenue,  
Apt 415,  
Toronto,  
Canada

## Reform of EC farm subsidy system would lift economies

From Mr Patrick O'Brien.

Sir, The best way to revive the European economy, reduce inflation and help the poor would be to change the Common Agricultural Policy from a price support system to one based upon deficiency payments related to the difference between world market prices and intervention prices. This was the British system of agricultural subsidy before joining the Common Market.

The present CAP costs the average family £12 a week in artificial prices, plus taxes to subsidise exports of surpluses. Abolishing the CAP, so reducing food prices, would be equivalent to a benefit of £12 a week helping the poor and families most because they spend a greater proportion of their income on food.

Farm support would be paid directly to farmers but limited to the level of deliveries made by each farmer in previous

years under the CAP so that any extra production could only be sold at world price. Thus, farm outputs would be related to the market price not the intervention price. There would be savings in the cost of bureaucracy besides eliminating the storage and sale of surpluses. The objections of other agricultural countries to European farm subsidies would be removed because export subsidies would be ended.

Some might think it not unreasonable that each country should pay the subsidy claimed by its farmers instead of British subsidising foreign farmers at present.

Are our politicians capable of seizing this chance which has only occurred because of the recession and disarray of the CAP?

Patrick O'Brien,  
2 Evening Glade,  
Farnham,  
Dorset BH21 3DB

## A good read at breakfast

From Mr Ulrich Selzer.  
Sir, In his Business Book review, "The high priest of Moeconomics", Barry Riley stated that students nowadays neither have breakfast, nor do they read the Financial Times.

Neither statement holds true for myself. Every morning, I take explicit pleasure in walking down three floors to the mail-box to pick up your excellent product. Returning to my continental breakfast, containing whole-wheat bread, eggs, muesli, milk, orange juice and cappuccino, I enjoy a lengthy 40-minute breakfast before setting out for the day.

It is my belief that the quality of your life reflects on the quality of your work. Together with a healthy breakfast to satisfy my physical needs your newspaper provides me with the perfect start for a 16-hour working day.

Ulrich Selzer,  
student, breakfast and  
FT reader,  
Adam-Kirchhof-Strasse 56,  
6580 Mainz,  
Germany

## Self-regulation requires clear differentiation

From Mr Charles Abrams.

Sir, Recent articles and letters in the FT clearly indicate that a bandwagon to end self-regulation of the securities industry is gathering speed. As a lawyer, I would not get involved in the political debate. However, I would note that the question of whether self-regulation should continue is different from the question of who finances the regulatory system. Similarly, even the regulators in a self-regulatory system can be given powers to investigate and prosecute insider dealing and securities fraud.

If it is indeed proposed to have self-regulation for some sectors and statutory regulation for others — as suggested by Mr Yassukovich, a former regulator (Letters, November 10), and Lord Alexander — it is in my view important to insure that what are called private clients are kept on the line along with the wholesale markets (albeit with more detailed

rules), rather than regarded as part of the retail sector.

Private clients are the typical client base of stockbrokers, merchant banks and the very important UK and overseas private banking sector. Those institutions are not the same as the high-street investment advisers and insurance company tied agents, and their regulators and conduct of business rules should similarly be different. Private clients are in particular high net worth individuals. However, retail market clients are also individuals. It is very difficult to differentiate between them and, in my view, the dividing line should be drawn on the basis of the product concerned.

The distinction should be between securities, derivatives and in-house funds on the one hand and what are referred to as packaged products, namely life policies, authorised unit trusts and Securities and Investments Board-approved mutual funds, on the other. Packaged products already

have their own regime; for example, and importantly, it is only packaged products which are subject to the polarisation rules which distinguish so firmly between tied agents and independent advisers. This differentiation has the added advantage that it is merely separating out what is already an existing self-contained regime.

Changes to self-regulatory organisation (SRO) rules to help prevent Maxwell-type abuses can be required by the government even under the present system; the rule books have to be written on the basis of statutory guidelines and SROs must include rules that the SIB insists on. Under the present system of self-regulation within a statutory framework these changes can be brought in quickly. If the rules are wrong, there is no need to substitute statutory regulation merely to get them right.

Charles Abrams,  
S J Bervin & Co,  
222 Grays Inn Road,  
London WC1X 8BB

## OBSERVER

## Jefferson in blue jeans

It sounded odd a month ago when Germany's official welcome of Bill Clinton's victory called him "William". But perhaps the German government knew something nobody else knew then.

With the announcement of plans for January's presidential inauguration, humble Bill has suddenly become not only William but also Jefferson, which happens to be his middle name and quite a convenient one for any US president.

In sketching out the four-day inaugural celebrations, Democrat chairman Ron Brown talked of the national "rite of passage". In reality what Washington is going to experience is a right to party.

It includes 10 inaugural balls (which at \$125 a ticket are cheaper than Reagan's and Bush's bash), eight big public events including a special party for the homeless with the admission fee being food and clothing, and a "gathering" for diplomats at Georgetown University, Clinton's alma mater and also home to the US school of foreign service.

The total bill will also undercut the Reagan and Bush inaugurations at around \$20m — 80 per cent funded, like Norman Lamont's legal bills, by private contributors with the rest coming from sales of officially sanctioned souvenirs.

For the socially conscious, William Jefferson Clinton will wear black tie to the balls, but jeans to his Arkansas party.

## Banking on

Merchant bankers are always terribly discreet, so it's impossible to know whether Warburg's Sir David

Scholey really has ruled himself out of the race for the governorship of the Bank of England by accepting a directorship of GEC. But that is what many may suppose.

Given that a decision on the bank job is expected before the year-end, it would have been easy to delay his membership of the GEC board for a few more months. Perhaps he's playing hard to get, but Ladbroke's Paul Austin for one thinks that Scholey is no longer a contender. He stopped taking bets on the governorship stakes yesterday.

Before the GEC announcement, Ladbroke had Scholey as four to five odds-on favourite, followed by Sir David Walker, Eddie George and Rodney Galpin. News of Galpin's early retirement from the Standard Chartered chairmanship is unlikely to increase his chances of being first at the Threadneedle St post, and Walker still looks the clear favourite over home-stable candidate Eddie George.

Even so there could be some surprises in the final furlong. A couple of longshots which might be worth backing are Sir Christopher Hogg, boss of Courtlands and Reuters, and Sir Jeremy Morse, who steps down from the chairmanship of Lloyds Bank in February.

The problem is that, like Scholey perhaps, they might well not want the job in its present form.

## Hauled down

The backlash following neo-Nazi violence against foreigners in Germany has now brought down one of the heads of the country's aerospace industry — and all because he flew the wrong flag in his garden.

He is Karl Dersch, abrasive president of the industry's



"I thought my G band was an erogenous zone"

federation BDLI as well as on the board of the Deutsche Aerospace subsidiary of mighty Daimler-Benz, and one of Bonn's great defenders of the European fighter.

Amid rebounding repugnance for all tokens of nationalism, his Daimler bosses were appalled by press reports of the flag flying in front of his house as a pre-1918 standard bearing an imperial eagle and the Iron Cross.

Hence Deutsche Aerospace's blunt announcement that he'd be resigning because, according to the company's chief, Jürgen Schrepp, that was the only way to save Daimler-Benz's interests from further damage.

Although the Reichskriegsflagge is now the emblem of skinhead gangs terrorising refugees and asylum seekers, the ousting might seem a bit hard on Dersch. In pre-skinhead days the flag was regarded as the one acceptable symbol of German national pride, representing the "unspoiled" imperial navy.

Even so, it is not the first corporate flap he has created.

He was a prime mover behind the "Peenemünde affair" in August, when the BDLI chose to celebrate the 50th anniversary of the flight of the first V2 rocket. He dismissed subsequent British protests as "hysterical", but was overruled by higher authority as being insensitive.

Few tears are being shed over him at Daimler-Benz headquarters...except the embarrassed variety.

## Old boy rivalry

While the acquisitive TT Group's boss, John Newman, takes umbrage at being called a copy-cat, that is the way things would seem.

One after another, the members of the Hanson old-boys' club are taking to the acquisition trail. Greg Hutchings' Tomkins is buying RHM, a couple of old Hanson hands at Wassall are bidding for Evode, and now TT Group is buying AB Electronic.

Newman, aged 47, was the first of Lord Hanson's acquisition chiefs to go off on his own, and his public company remains the smallest and most lowly rated of the three. He keeps in touch with Hutchings, but plays down any rivalry.

Meanwhile Bob Cowell, who master-minded Hanson acquisition strategy in between Newman and Hutchings, assures me his Makinson Cowell business has no plans to join the fray. But isn't it time that Lord Hanson himself showed his buying mettle?

## Hot topic

In time for the Queen's Christmas stocking, at least, is the book, *Fire Protection in Old Buildings and Historic Town Centres*, just published by the Fire Protection Association.

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## Closer ties spark Swiss passion

Emotion marks a referendum on links with Europe, writes Ian Rodger

The Swiss are known for many things - reliability, tolerance, self-discipline - but not for outbursts of emotion.

Thus, when one Swiss farmer calls a federal cabinet minister a traitor, and another tells a francophone Swiss minister that he has no right to speak publicly in German Switzerland unless he uses a Swiss German dialect, it is apparent that something unusual is happening.

What it is is a political campaign for a national referendum this Sunday on whether Switzerland should join the European Economic Area, an expanded free trade zone uniting the seven countries of the European Free Trade Association, including Switzerland, and the European Community.

The Swiss themselves are surprised at how passionate the debate has become. "It is the first time I have ever been interested in politics," says Ms Monika Ziegler, a Zurich hairdresser who keeps a briefing paper at her side to answer customers' questions on the subject.

Opponents claim ominously that the EEA is the first step down the slippery slope to membership in a centralised EC and the loss of cherished Swiss independence, neutrality and prosperity. Advocates believe just as passionately that it offers the best chance to avoid a stifling isolation that would gradually sap the vigour of the country's economy and peoples.

Coming when the country's economy has faltered badly, the issue has sent normally self-assured Swiss citizens into turmoil about which way to vote. Opinion polls show sentiment evenly split overall, but with a large proportion of voters, about 30 per cent, still undecided.

Tension is added by the requirements for not only a national majority in the referendum but also a majority in at least 12 of the 26 cantons for the treaty to be ratified.

Another worrisome feature is the unusually sharp difference in

sentiment between the German-speaking majority, which tends to be uneasy about closer ties with the EC, and the French-speaking minority, which favours them.

Government leaders admit that in the event of a rejection of the treaty the country's delicately balanced political system would be thrown into crisis.

For those outside with interests in Switzerland, the importance of the vote should not be exaggerated. Existing free trade and several other treaties between the country and the EC will carry on even in the event of rejection. The near-term impact on the economy will be marginal.

**'It is the first time I have ever been interested in politics,' says Zurich hairdresser, Monika Ziegler**

The big Swiss banks and multinational companies will be unaffected either way as they already have established bases in EC countries.

And a political crisis would undoubtedly be defused in due course. The spectre of a break-up of the confederation and the creation of a separate French-speaking state is not on, given the economic weakness of the six francophone-dominated cantons.

But for the moment, the country is in an uncharacteristically feverish state. Mr Jean-Paul Delamuraz, the minister who was criticised for not speaking Swiss German in Schaffhausen three weeks ago, laments: "Reason and truth do not seem to have a place in this debate any more."

Although the campaign had been in the offing for months, it got seriously under way only about four weeks ago. The government was quietly confident of victory, having assembled an extraordinary alliance of the leadership of nearly every important branch of society - banks, industry, trade unions, even farmers.

But in the initial weeks of the campaign, the opponents made all the running, conjuring up visions of floods of immigrants and domination by an insensitive Brussels bureaucracy. Two weeks ago, a poll showed a clear plurality of voters against the EEA and the anti forces gaining ground.

Alarmed, the pro camp rolled out its big guns. Brown Boveri, the engineering group, wrote to its suppliers warning of loss of business. If the treaty was rejected, Roche and Sulzer, two other big companies, said they would cancel investment projects in Switzerland.

In one of the most moving appeals, Mr Walter Frehner, chief executive of Swiss Bank Corporation, said in Zurich last week: "I am against the offshore mentality being promoted by the EEA opponents. I want to leave my children a Switzerland whose strength is not just its neighbours' weaknesses, a Switzerland which does not consist only of hotels, banks and holding companies."

By the end of last week, polls indicated that, while the number of undecided voters was still high, there had been a decisive swing, with 46 per cent in favour and 38 per cent against.

If the treaty is accepted, the turning point will probably be seen as the night when two cabinet ministers faced a hostile public in a nationally televised debate at Schaffhausen, the central Swiss town where the confederation was formed in 1291. After the ministers spoke in the hall holding the sacred federal archives, a farmer stood up and called them traitors. The outraged ministers dropped all pretence of civility and responded so vigorously that, by all accounts, they won sympathy throughout German Switzerland.

For the Swiss, the most controversial element of the EEA treaty is the obligation to take on the EC's so-called four freedoms - of movement of capital, people, goods and services. Anti-EEA campaigners have been able to appeal to the deep seated fear in

most Swiss of foreigners over-running the country, some taking jobs away from locals by accepting lower wages, others buying up every available Alp. In fact, in the past couple of years, as a result of recession, there has been a net outward flow of people to EEA countries, and this is likely to persist.

EEA advocates say that the real beneficiaries of freedom of movement will be the Swiss who will be able to study and work freely in other EC countries. Research-oriented Swiss companies fear they will not be able to attract talented scientists if the treaty is rejected.

Another troublesome element

**'Reason and truth do not seem to have a place in this debate any more,' says a Swiss minister**

of the treaty for the Swiss is the supremacy of EC law in all of the areas covered. Opponents have emphasised how the Swiss will no longer be able to have the final say through plebiscites on every important issue.

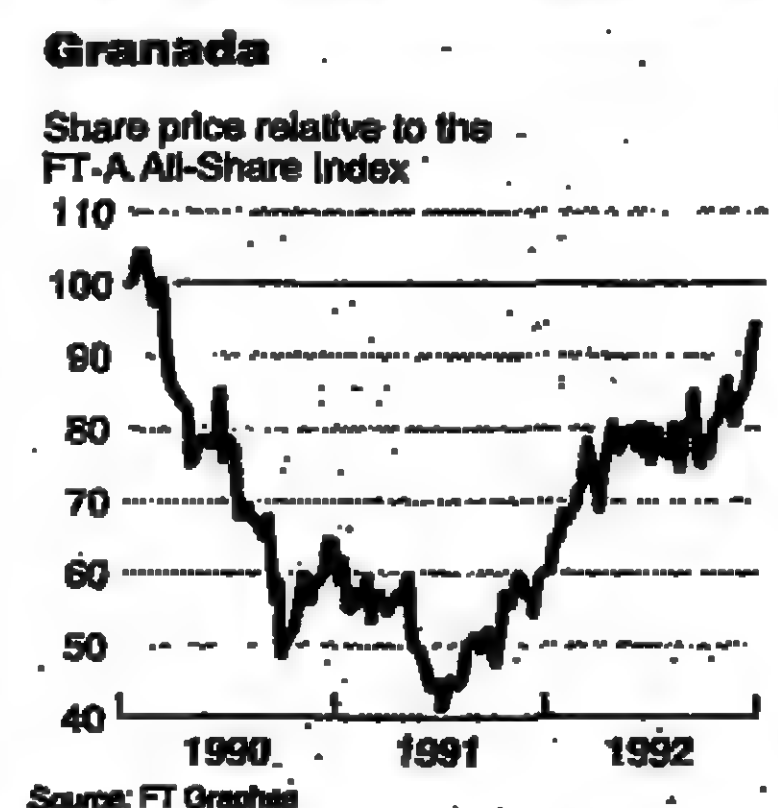
Advocates counter that the EEA is nowhere near as intrusive as EC membership would be. The EEA has no impact on heavily subsidised Swiss agriculture, except insofar as it should bring about a reduction in the cost of imported machinery and other farm inputs. And it does not threaten Switzerland's monetary independence or bank secrecy. Nor does it cover defence, and so does not undermine Swiss neutrality.

As Sunday approaches, the tide seems to be firmly in the direction of approval of the treaty. But swinging a majority of cantons into the Yes camp still looks difficult because of the large number of small cantons in the German-speaking part of the country. Also, the external environment is not exactly helpful. Seldom have European institutions looked so unattractive.

## THE LEX COLUMN

### GEC cashes in

FT-SE Index: 2764.1 (-27.9)



GEC's long-standing reputation as a dull performer has certainly not been reflected in the share price over the past year. The company has made strenuous efforts to offset the slow-down in business areas such as defence with international joint ventures. Perhaps the most notable of these is the collaboration with Alstom, and power systems profits duly increased by 18 per cent in the first half. Still, the image of GEC as a hoarder may be reinforced by the appointment of a senior merchant banker to the board and the effective cash inflow of £405m in the past six months. The second half will not see such a torrent, but next year the company is likely to pull in at least another £200m in cash.

What happens to the money seems to fascinate observers rather more than it does GEC. Investors may fret that while a cast-iron balance sheet can be a support in troubled times, once recovery is on the way cash becomes a drag. GEC has hinted that the relaxation of the government's rules about private sector participation in infrastructure projects may offer opportunities. Perhaps the company might provide lease finance to British Rail so that it can afford to buy GEC-manufactured trains. But given sloth in Whitehall and Lord Weinstock's well-known caution, it is hard to see this blossoming quickly.

Supporters may argue that the company will benefit from devaluation, but GEC will need to invest into the recovery if it is not to repeat its under-performance of the 1980s. If opportunities are not available, shareholders might prefer to keep some of the cash in their own deposit accounts.

#### Granada

If Granada's problems have not proved as great as feared, its recovery has also been swifter than expected. Since his arrival as chief executive just over a year ago, Mr Gerry Robinson, dismissed as a mere caterer by television professionals, has helped lift Granada's shares by more than 80 per cent, adding some £600m to its market value in the process.

Shedding 8 per cent of the company's workforce (with yet more to come) and ruthlessly squeezing cash has worked financial wonders. So have ingenious schemes to tickle growth from mature rental and television businesses - as yesterday's 129 per cent profits improvement on near static sales amply illustrates. A £21m

turnaround at the troubled computer services business also helped.

But Granada is still struggling back to first base. Profits remain £34m adrift of what they were three years ago and with the benefits of the bounce fading, the question looms of what rate of growth Granada can now sustain. The market was impressed by the revitalised potential of the computer business and Granada's ability to milk cash from motorway service sites and TV rental shops, even in recession. Further out, Granada's BSkyB stake adds extra spice and some acquisitive growth can be expected to kick in. But moving from cutting to growing mode can prove difficult. A forward rating of 15 allows for little pause for consolidation.

#### Bass

Bass may rightly pride itself on its decision to tackle the government requirement to reduce its tied estate early and decisively. By selling pubs before prices were too depressed, it realised healthy profits for its shareholders. With a smaller estate, though, it has paid a heavy price in the form of a 25 per cent slide in pub retailing profits for 1991-92. The hangover, though less acute, will also continue in the current year.

True, there were other factors behind the retailing decline: internal pricing arrangements mean the brewing side may have gained at the expense of its retailing division. The company is also stepping up its spend on pub refurbishment, which had been neglected while the estate was being shrunk. That should bring returns eventually, though it will be

1994 before the normal maintenance cycle is back on track. The underlying message from yesterday's results is that recovery, both from the recession and the beer orders upheaval, will be slow in coming through.

Yesterday's 3 per cent share price drop looks a reasonable response, especially given the company's determined caution on current trading as the Christmas season looms. But it would not do to get carried away. Holiday Inn will be helped by higher franchise rates and currency gains even though room rates have yet to respond to the tentative US recovery. Bass also looks particularly strong in brewing. With costs under control it is well-placed to push for higher market share.

#### UK Gilts

Yesterday's gilts auction was an inauspicious affair, with demand little better than at the last auction in August. More seriously, the sale attracted barely a modicum of overseas interest despite the normally popular 10-year maturity. Admittedly foreigners have been net sellers of gilts since sterling came out of the ERM, so there was little chance of a stampede. Some may also be reluctant to commit funds so close to the year end. The Bank of England will doubtless hope to drum up more enthusiasm if it decides to auction more of the same stock in the spring.

Something will have to give, though, if overseas investors are to provide more than grudging support for the funding programme. Gilts yielding 1.3 percentage points more than German bunds were attractive enough while sterling was inside the ERM. They look far less enticing now that Mr Major's government is free to pursue growth ahead of lower inflation. Sterling's devaluation since then leaves more room for currency gains, especially if the dollar resumes its upward march against the D-Mark. On yesterday's auction evidence, however, overseas investors are not convinced that sterling has hit bottom.

Little wonder gilts do not have much credibility as a safe haven from turbulence within the ERM. Thus the yield differential between gilts and French bonds widened this week as the latter rallied in expectation that any devaluation of the franc would be coupled with lower interest rates. International investors prefer to take their chances with the Bundesbank rather than place trust in Mr Major.

## Bundesbank raises voice

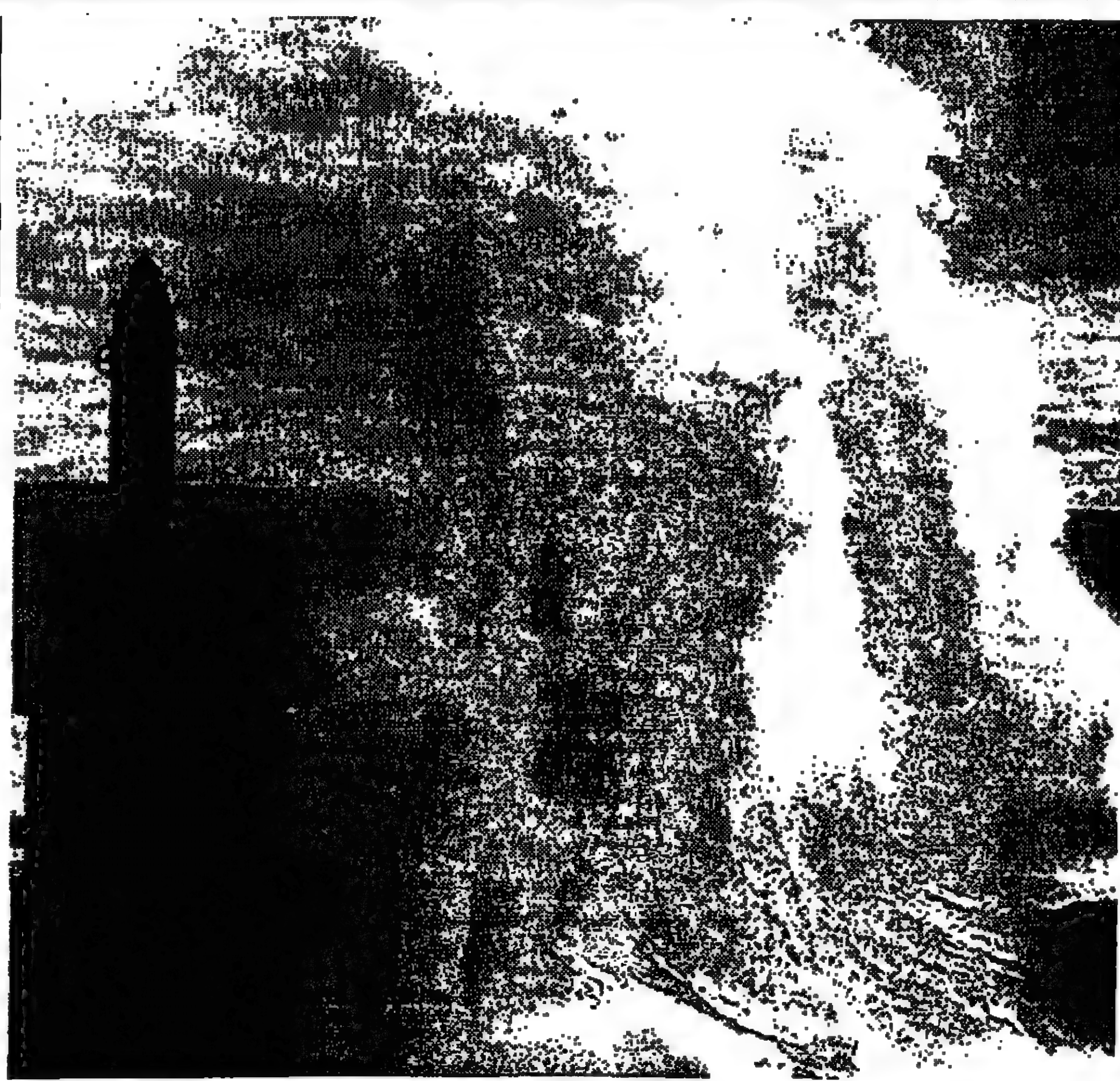
Continued from Page 1

would be resolved through higher taxes or higher inflation. "We can take it for granted that no one wants the latter."

In this week's speech he also attacked politicians who had the nerve to exert "moral pressure" on the Bundesbank to cut interest rates while it was still battling to win the war against German inflation.

He said that if politicians wanted to help stabilise markets and reduce money market speculators' room for manoeuvre, they would be better advised to stop regarding exchange rates as tokens of political prestige and give their central banks independence. The man who has raised several grave concerns claimed the sort of pressure exerted on the Bundesbank of late actually increased doubts about ERM.

But he left his audience with no doubt about his stance on interest rates. He said it would be a mistake for the Bundesbank to try to iron out domestic economic difficulties with a lax monetary policy, even taking into account the "short-term problems" of partner countries. That would be a disservice to European monetary integration, he declared, dropping the community's most gnawed-at bone of contention in Mr Kohl's backyard.



The French port of Brest feels the full force of storms which battered north-west Europe yesterday

## French franc struggles in spite of intervention

Continued from Page 1

currencies in the system, said it spent £8770bn (£1.408bn) from its reserves in the week to November 30 in supporting the weaker currencies in the ERM.

● In an effort to reduce the strains, Mr Henning Christophersen, the European Community economy commissioner, ruled out further realignments and said selling of the krone, the French franc and the Irish punt was "irrational".

● In a more hopeful sign for the punt, which has been under pressure recently, the Irish currency

strengthened against other major currencies. In spite of yesterday's move by the Irish central bank to cut its overnight interest rate from 100 per cent to 30 per cent.

The upheaval in the currency markets is certain to be high on the agenda at the Bonn summit, which lasts until tomorrow. France and Germany will seek to co-ordinate their strategy for the forthcoming EC summit in Edinburgh, with both deeply committed to ensuring the Community-wide ratification of the Maastricht treaty.

They want to find a solution which can accommodate Den-

mark's objections to the treaty, without having to renegotiate it. Their talks are likely to be overshadowed by the battle over the French franc, and by their differing views over the Gatt negotiations.

Mr Kohl, and his agriculture minister, Mr Ignaz Kiehl, have made it clear that they can live with the deal on restraining EC farm exports worked out by the European Commission and the US administration. Mr Mitterrand remains passionately opposed.

Mr Kohl is not going to allow differences over Gatt to sour his

close alliance with the French president, although he may expect some French response on that score in return for Germany's loyal support of the franc. On the currency markets, if the franc continues to experience the same weight of selling over the next few days, economists in Paris expect the Bank of France to increase its five-to-10-day repurchase rate, currently 10 per cent, in an effort to defend the currency.

This is the rate at which the central bank does marginal short-term lending to the banking system.

World Weather		°C		°F		°C		°F			
	°C		°F		°C		°F		°C		°F
Ajaccio	b	17	63	Buenos Aires	S	0	32	Frankfurt	F	12	54
Algiers	S	21	70	Buenos Aires	S	0	32	Geneva	F	14	57
Amsterdam	N	10	50	Caracas	S	26	79	Manila	F	26	79
Antwerp	N	10	50	Cairo	F	19	66	Moscow	F	10	50
Bahamas	S	25	77	Cardiff	F	10	50	Paris	F	10	50
Bahrain	S	25	77	Chennai	F	19	66	Perth	F	10	50
Bangkok	F	26	79	Chicago	S	1	34	Phoenix	F	22	72
Bombay	F	26	79	Columbus	F	19	66	Rangoon	F	26	79
Buenos Aires	S	0	32	Copenhagen	F	10	50	San Francisco	F	10	50
Calcutta	F	26	79	Dallas	F	10	50	Seoul	F	10	50
Cardiff	F	10	50	Dublin	F	10	50	Singapore	F	26	79
Cairo	F	19	66	Edinburgh	F	10	50	Taipei	F	10	50
Caracas	S	26	79	Frankfurt	F	12	54	Tokyo	F	10	50
Chennai	F	19	66	Hamburg	F	10	50	Winnipeg	F	10	50
Chicago	S	1	34	Helsinki	F	10	50	Zurich	F	10	50
Colombo	F	26	79	London	F	10	50				
Columbus	F	19	66	Los Angeles	F	10	50				
Copenhagen	F	10	50	Madrid	F	10	50				
Dallas	F	10	50	Moscow	F	10	50				
Dublin	F	10	50	Manila	F	26	79				
Edinburgh	F	10	50	Mumbai	F	26	79				
Frankfurt	F	12	54	New York	F	10	50				
Hamburg	F	10	50	Perth	F	10	50				
Helsinki	F	10	50	Phoenix	F	22	72				
London	F	10	50	Rangoon	F	26	79				
Los Angeles	F	10	50	San Francisco	F	10	50				
Madrid	F	10	50	Seoul	F	10	50				
Moscow	F	10	50	Singapore	F	26	79				
Manila	F	26	79	Taipei	F	10	50				
Mumbai	F	26	79	Tokyo	F	10	50				
New York	F	10	50	Winnipeg	F	10	50				
Perth	F	10	50	Zurich	F	10	50				
Phoenix	F	22	72								
Rangoon	F	26	79								
San Francisco	F	10	50								
Seoul	F	10	50								
Singapore	F	26	79								
Taipei	F	10	50								
Tokyo	F	10	50								
Winnipeg	F	10	50								
Zurich	F	10	50								

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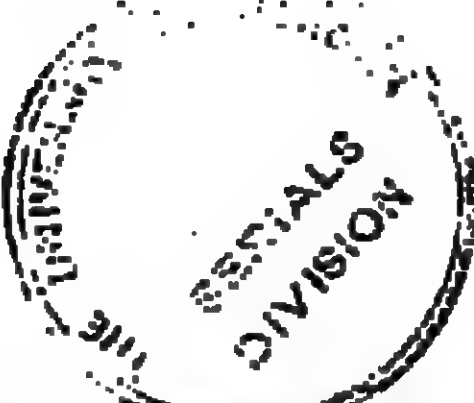
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# FINANCIAL TIMES COMPANIES & MARKETS

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## INSIDE

### Branson shelves Virgin sell-off

Mr Richard Branson has shelved plans to sell a 10 to 25 per cent stake in Virgin Atlantic Airways. He says the future of his carrier and other smaller independent airlines is threatened by European Commission proposals on allocation of take-off and landing slots at congested EC airports. Page 20

### EC move on bank protection

Depositors at banks could receive greater compensation in the event of a bank failure, if a European Community directive on deposit protection schemes is agreed. However, EC members are at loggerheads over the proposed directive. Page 19

### Scramble for bank shares

The Israeli government's effort to divest itself of its majority holdings in the country's four largest banks took a step forward this week. The placing of the state's 42.5 per cent stake in IGB Holding, the rich industrial investment arm of Israel Discount Bank, on the Tel Aviv Stock Exchange (TASE) on Sunday was 120 times oversubscribed. Page 17

### Gilt falls after auction

UK government bonds fell a quarter point after the Bank of England's disappointing auction of government bonds. Demand was poor: the Bank reported a ratio of bids to the amount on offer of only 1.26 times, and the auction was dominated by domestic players as foreign investors continued to shy away from the gilt market. Page 19

### Santiago suffers the blues

Chile's stock exchange is suffering from a bout of year-end blues because of fears of an imminent rise in central bank interest rates to cool an overheated economy. The latest projections show the Chilean economy growing by more than 9 per cent in 1992. High yields on government paper have siphoned off funds from the bourse. Page 16

### Finnish bank strengthens base

Union Bank of Finland, the country's second-largest bank, yesterday said it would take a Fm1.7bn (\$328m) injection from the Finnish government to strengthen its capital base. Page 16

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### Chief price changes yesterday

FRANKFURT (DM)		Sole International	735	+ 28
Heidelberg	835	Union Interim Fr	475	+ 22.5
Lufthansa	570	Phelia		
Sachsen-Pfalz	215	Aust. Entrep.	385	- 18
Phelia		Dallas Mfg Co	282	- 14
Berliner Bank	243	Heidelberg	251	- 14
Dresdner Bank	155.5	TOYO (Yen)		
Mitsubishi	412			
PARIS (FFr)				
Alcatel	4	Kohi Machine	520	+ 40
Standard Fed Bk	23.5	Komant	2050	+ 230
Telecom	54.5	Motex Trading	350	+ 40
Caterpillar	17	Takath	1330	+ 130
Com. Stores	17	Zalman	2540	+ 240
LA Gas	10.5	Phelia		
Comptel	2.5	Hemphill Pharm		
PARIS (FFr)				
Alcatel	343.5	774	- 55	
SB SA				
New York prices at 12.30pm.				
LONDON (Pence)		Tipton	395	+ 30
Alcatel	140	Vesper	88	+ 5
Amstar	283	Victrola	230	+ 17
Aspen	370	Phelia		
Bombardier	910	AB Electronic	50	- 6
Bores	407	Estimate House	68	- 7
Com. Stores	65	Gao Zhany	680	- 27
Dresdner	24	HSBC	480	- 20
Granada	134	Phelia	94	- 8
Prudential (A)	92	Porter Chubburn	20	- 6
Salomon (C)	346	Royal Indco	285	- 12
Seaborn	119	Standard Chd	523	- 15
Smith New Cl	105			
Tarmac	96			

## BBL chief executive quits in bid backlash

By Andrew Hill in Brussels

THE CHIEF executive of Banque Bruxelles Lambert (BBL), one of Belgium's big three banks, resigned yesterday following the failure of Internationale Nederlanden Groep (ING), the Dutch financial services group, to bid for BBL.

Mr Theo Peeters, together with most of the BBL management, was a strong supporter of the ING proposals, but the Dutch group abandoned its plans last month after disagreeing with the Belgian bank over the price to be offered. ING, which had conducted a full audit of BBL's books, wanted to pursue a co-ordinated "bancaissance" strategy with the bank.

Let's just say that Mr Peeters personified a certain policy, said a bank spokesman yesterday. "As this policy seems to have failed, he preferred to withdraw."

The group's chairman, Mr Jacques Thierry - another supporter of the ING link-up - confirmed that he would step down in April having reached the statutory retirement age.

The announcements are an indication that Groupe Bruxelles Lambert, the Belgian holding company and largest shareholder in BBL, is reassessing its hold over the bank. GBL, which is headed by Mr Albert Frère, had lobbied hard against an ING bid, suggesting that it could come up with an alternative solution. One possibility which Mr Frère was thought to favour was a link-up

## Haig Simonian on reasons for a rescue plan at the Aga Khan's luxury hotels group

### Ciga acts to cut its prestigious amount of debt

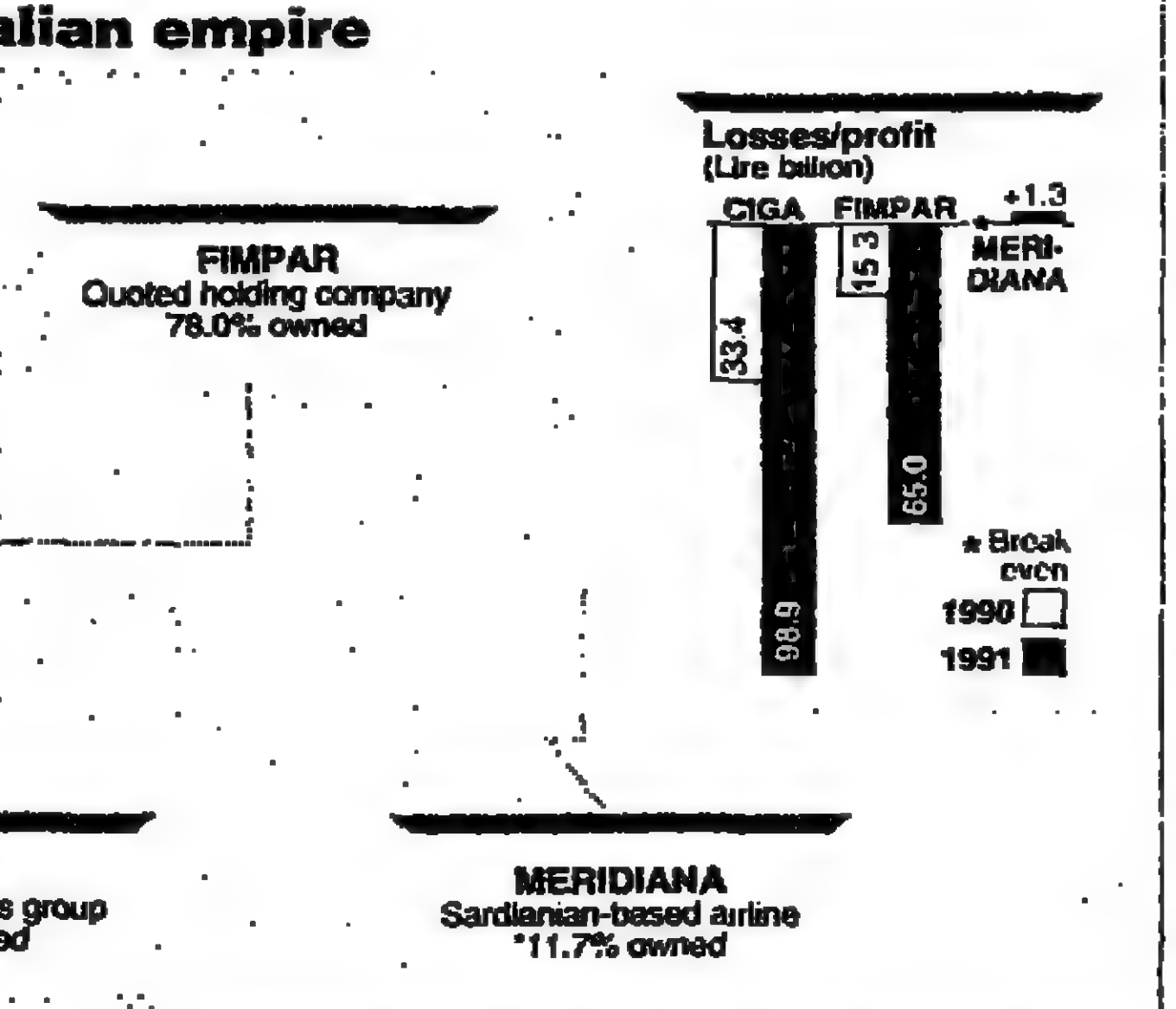
For its critics, the problems at Ciga, the luxury hotels group controlled by the Aga Khan, are the legacy of botched decisions based on over-confidence. For the company, the difficulties reflect unusually bad luck which have upset a rational, if ambitious, growth plan.

Whichever is true, Ciga, one of the world's leading prestige hotels groups with 36 hotels in six countries, is facing the toughest week in its history.

### The Aga Khan's Italian empire



The Aga Khan



In a matter of days, it should sign an agreement with an unspecified Italian investor to sell a "substantial" slice of the subsidiary owning its properties, once valued at L2,500bn (\$2bn). Details have not yet been revealed. But the company is confident the deal will cut debts, now almost L1,000bn including rolled-over interest and a convertible bond issue, to between L350bn and L400bn.

That will reduce borrowings to below the level of sales, expected to be around L400bn this year and L500bn in 1993. The breathing space should give Ciga time to consider further steps to reduce borrowing.

Swung into place to raise the standards of some of the group's famous, but sometimes shabby, properties. Much went on Milan. Benefiting from a special zoning amendment linked to the 1990 world cup, which allowed hoteliers to expand their buildings, the company overhauled and extended three of its four properties. Costing around L120bn for the two hotels Ciga owned, rather than just managed, the multi-year project dug into cash flow by cutting room availability while fixed costs remained virtually unchanged. In all, the Milanese works cost L25bn-L30bn in lost revenues.

Other surprises pushed Ciga further off course. Diversification, the third leg of its strategy, went sour after permission to develop a huge tract of land in Sardinia was not granted. The failure to win approval was a double embarrassment. Financially, it scuppered hopes to inject fresh money into the group by bringing outside investors into the new Sardinian scheme.

In terms of image, it embarrassed both Ciga and the Aga Khan, the driving force behind the development since 1962 of Sardinia's rocky north-east coast into the "Costa Smeralda" - one of Europe's most prestigious and expensive holiday playgrounds. Then came the Gulf war, leading to an immediate drop in business and leisure travel. Though the market has recovered from the depressed days of early 1991, Ciga remains hit by the economic recession, making businessmen think twice before spending \$300 or more a night for a room. Though now painstakingly modernised and arguably much better value for money than in the past, Ciga's hotels are among the most expensive in the world.

## UAP to pump FF1.4bn into Banque Worms to cover losses

By William Dawkins in Paris

UNION des Assurances de Paris (UAP), France's largest insurance group, yesterday provided the latest sign of the severity of the collapse of the Parisian property market when it announced a FF1.4bn (\$269m) recapitalisation for its banking unit, Banque Worms.

UAP warned at the end of October that it would have to pump more than FF1bn into the loss-making Banque Worms, but yesterday's package was bigger than most analysts had expected.

Part of the cash would be used to set up three property and financial intermediation companies, jointly owned by Banque Worms and UAP, to encourage "better synergy" between the insurance group and the bank, he said.

## GEC cautious over dividend

By Tony Jackson in London

THE General Electric Company disappointed City optimists with a cautious 5 per cent rise in its interim dividend yesterday, in spite of a near doubling of its cash mountain to more than £1bn (\$1.6bn).

The company also announced that Sir David Scholey, chairman of Warburg, is to join the board. Sir David had been widely tipped as the next governor of the Bank of England. This would appear to be ruled out by the GEC appointment, as the governor is not allowed to hold outside posts.

GEC's pre-tax profits rose 3 per cent to £366m, on sales 5 per cent lower. Earnings per share were up 4 per cent. In divisional terms, the strongest performance came in power systems, where profits were 18 per cent ahead. Its weighting machine business, on the other hand, saw profits almost halved because of weak demand in North America and Australia.

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Lex, Page 14; Details, Page 21; People, Page 10



## INTERNATIONAL COMPANIES AND FINANCE

## UK brewing group's 16% rise disappoints market

By Philip Rawlstone  
in London

BASS, the UK brewing, hotels and leisure group, fell short of market expectations yesterday despite a 16.5 per cent rise in full-year pre-tax profits to £501m (£751.5m).

Shares fell 15p to close at 585p as Mr Ian Prosser, chairman, said he expected no improvement in trading conditions before late next summer.

"There are signs that the American economy may be moving in the right direction but... we have seen false signals in this respect in the past two years." In the UK, we do not see any such signs.

Market sentiment was further depressed by evidence of damage inflicted by the UK recession and the government-enforced disposal of pubs.

A property revaluation has led to a write-down of £496m, 13 per cent of total property value and about half of the surplus recorded in the 1988 revaluation. The sale of 1,213 pubs during the year contributed to a 24.5 per cent decline in pub operating profits, but Bass recouped the lost beer volumes with gains in the free pub trade and take-home market.

Earnings per share for the year to September 30 grew 8.3 per cent to 39.6p; a final dividend of 13.65p raises the total

payment to 18.9p, an increase of 6.3 per cent. The accounts include exceptional charges of £75m for rationalisation and reorganisation costs in the brewing and pub divisions; and an extraordinary credit of £91m mainly from surpluses on pub disposals.

Group operating profit fell 1.5 per cent to £212.1m from £222.7m, on turnover reduced from £4.38bn to £4.31bn. Profit contribution from brewing operations rose 13.5 per cent to £210m on turnover of £1.59bn, 3.2 per cent ahead.

Holiday Inn hotels achieved a 12.4 per cent increase in operating profits to £116m.

Lex, Page 14; Details, Page 21

## Zurich banking executive to resign

By Ian Rodger in Zurich and  
Alan Friedman in New York

MR ALFRED HARTMANN, deputy chairman of the troubled Rothchild Bank in Zurich, is resigning at the end of the year.

His resignation follows revelations that the bank made loans of Sfr220m (£155m) which broke Swiss banking law. He has also resigned from the boards of five other Rothchild companies in Switzerland.

No reason for the resignation was given.

Mr Hartmann, a Zurich banker who began his career with Union Bank of Switzerland, has been involved with other troubled banks.

He was a director of the defunct Bank of Credit and Commerce International (BCCI) and chairman of its Swiss associate, Banque de Commerce et Placements (BCP), which was named in the first US indictment in 1988 of BCCI's money laundering activities in Florida.

He was widely criticised last year for his failure to spot trouble early on at BCCI.

Mr Hartmann was also mentioned in the recent 800-page report on BCCI issued by Senator John Kerry of Massachusetts. The Kerry report urged further investigation by the US of the nature of Mr Hartmann's financial dealings with Mr Charles Keating, the convicted former savings and loan tycoon.

Mr Hartmann joined Rothchild Bank in 1983 as its general manager. Two years later, the bank was censured by the Swiss Banking Commission for making a fictitious loan to the Marc Rich trading organisation.

He became a director and deputy chairman in 1989. The following year, the bank was retained by Philip Morris of the US to advise it on its bid for the Swiss confectionery group, Jacob Suchard. It was later investigated for buying Suchard shares for its own account in advance of the bid's announcement.

## Seagram hit by marketing costs

By Robert Gibbons  
in Montreal

THE RECESSION continued to dampen Seagram's wine and spirits business in the third quarter, while the Tropicana fruit juice unit performed strongly and benefited from lower overheads.

Third-quarter net profit was US\$178m, or 47 cents a share, down 9 per cent from \$193m, or 51 cents a share, a year earlier.

Mr Edgar Bronfman Jr, president, said in a statement that the Canadian group's flat performance in the third quarter was due mainly to the recession's impact on several key global markets, but also to higher advertising outlays to support its most important brands. Seagram spends around \$500m a year on advertising worldwide.

He said: "But we expect our overall operating income for the full year ending January 31 will exceed the \$760m reported for fiscal 1992." Sales from the worldwide drinks business dipped 3.7 per cent to \$1.45bn following the sale of several spirits brands in the US in the

final quarter of fiscal 1991.

In the third quarter, sales from continuing operations were steady. Operating income was \$198m, against \$206m.

Results included \$73m in dividends from Du Pont of the US, against \$69m, and \$41m equity in unremitted Du Pont earnings, against \$51m.

Net income for the nine months to October 31 was \$497m, or \$1.33 a share, down 6.5 per cent from \$530m, or \$1.40 a share, a year earlier. Sales were \$4.9bn against \$4.28bn. Results included Du Pont dividends of \$214m, com-

pared with \$207m, and unremitted earnings of \$121m, against \$185m.

Seagram is one of the world's top four drinks groups, selling in 150 countries and with subsidiaries and affiliates in 34 countries. Its main expansion thrust is in Asia and Europe because of the long decline in the North American spirits market.

Seagram is known to be searching for another premium brand acquisition, while senior management at Tropicana has recently been shaken up once again.

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Seagram is known to be searching for another premium brand acquisition, while senior management at Tropicana has recently been shaken up once again.

## Granada earnings climb 129%

By Raymond Snoddy and  
John Thornhill in London

GRANADA, the UK leisure, television and computer services group, plans to cut 800 more jobs in the next year including around 200 at Granada Television. The cuts come as the group yesterday announced a 129 per cent increase in pre-tax profits to £130m (£199m) for the year to the end of September.

The job cuts at Granada Television are expected to be announced next week. Yesterday, Mr Gerry Robinson, chief executive, said Granada Televi-

sion had been "under-managed" in the past.

A further 600 jobs are to go at Granada Rental.

Granada reported higher-than-expected profits and its shares closed up 25p on the day at 334p. In the first full year under the management of Mr Robinson every Granada division improved its position.

Rental increased operating profit by 9 per cent to £98m. Television had a 50 per cent increase to £33m although there was a one-off £6m saving in executive levy. Leisure, mainly motorway services, had a 16 per cent increase in oper-

ating profit to £27m. Computer services moved from a £12m loss to a £5m profit.

Mr Alex Bernstein, chairman, said the performance of British Sky Broadcasting, in which Granada has a significant stake, was "the icing on the cake". BSkyB would make an operating profit of £50m-£60m this year and would make its first pre-tax profit in the year beginning June 1993.

Granada's fully diluted earnings per share was 19p, a rise of 92 per cent, and the net dividend rose 10 per cent to 7.7p.

Lex, Page 14

## Institutions turn against Sugar

By Paul Taylor in London

TWO large UK institutional investors said yesterday that they would vote against Mr Alan Sugar's controversial 30p-a-share buy-back bid for the 65 per cent of Amstrad, the UK consumer electronics group, he does not already own.

Prudential said it would vote its 5m Amstrad shares, equivalent to a 0.9 per cent stake, against the bid, as did Postel, the UK's largest pension fund, which holds 10.92m Amstrad shares, equivalent to a 1.88 per cent stake.

Although the stakes are

small, the institutions' decision to oppose the bid represents a setback for Mr Sugar, Amstrad's chairman.

Opponents of Mr Sugar's £113m (£170m) plan to take the consumer electronics group private again, need to muster a total of 94.4m shares, or 16.25 per cent of Amstrad's paid up capital, to block the deal.

Although many institutional fund managers have said they are unhappy with the terms of the offer, Prudential and Postel are the first to announce they will try to block the bid.

Mr Andrew Threadgold, Postel's chief executive, said yesterday that the pension fund would be opposing the 30p-a-share bid because "we are opposed to management buy-outs of public companies by insiders," and was concerned to reinforce this principle.

The action of the two institutions yesterday is also likely to strengthen opposition among Amstrad's 31,000 individual shareholders, many of whom have already expressed concern about the bid.

One, Mr Edward Northcote who owns 1,000 Amstrad shares, will mount a legal challenge to the planned buy-out in the High Court this morning.

Mr Hartmann joined Rothchild Bank in 1983 as its general manager. Two years later, the bank was censured by the Swiss Banking Commission for making a fictitious loan to the Marc Rich trading organisation.

He became a director and deputy chairman in 1989. The following year, the bank was retained by Philip Morris of the US to advise it on its bid for the Swiss confectionery group, Jacob Suchard. It was later investigated for buying Suchard shares for its own account in advance of the bid's announcement.

## UBF takes FM1.7bn injection

By Christopher Brown-Humes  
in Stockholm

UNION BANK of Finland, the country's second-largest bank, yesterday said it would take a FM1.7bn (\$328m) injection from the Finnish government to strengthen its capital base.

The move makes it the last of the leading Finnish banks to take advantage of a FM38bn preference capital fund which the government set up earlier this year to help support the country's ailing financial system. The state has also established a FM20bn guarantee fund.

UBF said it decided to take the injection because of the

continuing difficulties being faced by the Finnish banking sector, which has been battered by heavy credit losses and the deterioration in the country's economy. It also noted that the option to apply to the fund expired at the year-end.

The bank said the provision would strengthen its capital ratio by about 1 per cent from 9.5 per cent and would increase its lending capacity by about FM20bn.

The injection takes the form of a preferred capital certificate and carries a coupon of 0.5 per cent a year over one-year Finnish government Treasury bills until the end of 1997.

If heavy losses prevent UBF from repaying the amount, conversion rights will allow the state to take a holding of up to 30.4 per cent in the group.

Unitas, UBF's holding company, disclosed a FM1.5bn loss for the first eight months of 1992, and predicted a FM3bn loss for the whole year.

Like other Finnish banks, it has been rationalising heavily. Staff numbers will have been cut to 8,500 by the year-end, 2,000 less than in 1987.

Kansallis-Osake-Pankki, UBF's main commercial competitor, said in August that it would also take a FM1.7bn injection from the government.

## Henkel aims to hold payout as profits fall

By Christopher Parkes  
in Frankfurt

HENKEL, the German chemicals, cosmetics and personal products group, expects profits to fall this year, but will maintain its dividend.

Forecasting a moderate fall in pre-tax and net earnings, Mr Hans-Dietrich Winkhaus, chairman, said sales after nine months had risen 11 per cent to about DM11bn (\$7bn), due mainly to the effects of acquisitions, and profits were still level with 1991 rates.

However, sales growth had slowed in the final quarter and the company expected turnover for the year to grow only 8 per cent to around DM14bn.

Germany's leading chemicals groups have been hit by a recent sharp fall in both volume sales and prices. The effects have been compounded by the appreciation of the D-Mark.

Henkel is likely to suffer less than others, however, because of its wide interests in consumer products such as detergents and toothpaste which are less susceptible to cyclical swings.

Even so, the company plans to reduce its workforce, increased by acquisitions, by 2,000 over the next two years. Investment next year will total DM730m, down from this year's DM900m.

Henkel's dividends last year were DM10 for preference stock and DM7 for preference shares.

## Viag sees bleak outlook for 1993

By Judy Dempsey in Bonn

VIAG, the energy-based German conglomerate, expects little improvement in profit and sales growth until the end of next year.

Net profits fell in the first nine months of the current financial year by 9 per cent to DM292m (\$185m), while turnover eased marginally to DM17.75bn, compared with the same period in 1991.

Mr Alfred Pfeiffer, Viag's chairman, said the results were affected by the slowdown in growth in the domestic market, as well as currency fluctuations on the international markets.

Two sectors of the group appear particularly vulnerable, with turnover rising less than

1 per cent for aluminium, and falling by 7 per cent for fire prevention equipment.

At the same time, surplus stocks, increasingly common across German industry, are also hitting Viag's packaging arm and primary aluminium sectors. Gerresheimer Glas, under which Viag's glass manufacturing sector is grouped, also showed a sharp fall in turnover from DM142m to DM67m. However, the group's interim results have been partly cushioned by the chemical sector, where turnover rose by 7 per cent.

Total spending on new investments also fell from DM2.03bn to DM509m, although this was expected following a rapid expansion of Viag throughout 1991.

● Sales at Preussag, the German industrial group, fell 3.9 per cent to DM24.5bn (\$15.5bn) for the fiscal year which ended on September 30, however net profits were slightly above last year's DM425m.

Mr Ernst Pieper, the group's chairman, said last year's dividend of DM10 per share would be unchanged. He added that order inflows continued to be stable at DM28.1bn, and the order backlog had risen by 5.3 per cent to DM11.6bn.

However, Preussag Stahl, the group's steel subsidiary, yesterday announced that it was planning to introduce a shorter working week, which will last for three months, starting in January. Preussag Stahl profits fell 51 per cent, from DM91m in 1991 to DM45m this year.

THE GOVERNMENT  
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in

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The Government of the United States  
and  
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December 1992

This announcement appears as a matter of record only

November 1992



TÜRKİYE TURİZM YATIRIM VE DIŞ TİCARET BANKASI A.Ş.

US \$ 10,000,000  
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## LEGAL NOTICES

## EXCERPT

By judgement dated 27 November 1992, the District Court of and in Luxembourg, sitting in commercial matters, handed down in public hearing, the following bankruptcy INTERCONTINENTAL SHIPPING AND TRADING SERVICES S.A. (I.T.S.E.), with registered office in Luxembourg, 4a, Boulevard Grande-Duchesse Charlotte.

The same judgement has provisionally fixed the cessation of payments on 27 May 1992. It has appointed Mrs Mayotte WELTER, Vice-President of the District Court of Luxembourg, as supervisory judge and Mrs Yvonne HANLIS and Mr Gaston STERN, both attorneys at law residing in Luxembourg, as receivers.

The proof of claims of the creditors must be filed with the District Court of Luxembourg before 11 December 1992.

The verification of the proofs of claims shall take place on 18 December 1992 at 20:00pm and the disputes relating to this verification shall be heard on 5 January 1993 at 10:00am in the District Court of and in Luxembourg.

This announcement has been prepared by the above judgement and is effected on behalf of the receivers. For true except, The receivers.

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For further information or to advertise in  
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Melanie Miles on 071 873 3308  
Karl Layton on 071-873 4780

FINANCIAL TIMES  
EUROPE & AMERICA'S NEWSPAPER

## ASICS CORPORATION

## U.S.\$15,000,000 5 1/4 per cent Convertible Bonds 1993

Notice is given hereby that ASICS CORPORATION will redeem all outstanding Bonds of this issue on 28th January, 1993. Bonds and Coupons will become void unless presented for payment within the periods of six months and five years respectively. Under the conditions of the Bonds and the provisions of the Trust Deed, Notice is further given that the Redemption Right will occur on the date of business on 28th January, 1993. Up to and including that date conversion may be effected at the Conversion Price of \$128.40 per Common Stock, at the fixed exchange rate of ¥116.00-US\$1.

The principal value of Bonds of this issue outstanding and unconverted at the close of business on the date of business on 28th January, 1993, is \$15,000,000 and the market price of ASICS CORPORATION Ordinary Shares at the close of business on the date of business on 28th January, 1993, was \$19.99 per Ordinary Share.

No payment shall be made upon conversion for interest accrued on any Bond (less and including 21st January, 1992) to the date of conversion in respect of the Bonds each of U.S.\$1,000. Conversion terms are available from the office of the Principal Paying and Conversion Agent or any Paying and Conversion Agent set out below.

Principal Paying and Conversion Agent  
The First Bank and Trust Company  
One World Trade Center, 81st Floor  
New York, N.Y. 10048

Paying and Conversion Agents

Salomon Trust International Limited Cheong and Poon Planners London EC2M 3HQ, UK	The First Bank, Limited 71 Lombard Street London EC3M 3JA, UK
Crutcher Lewis 19 Boulevard des Capucines Paris, France	ABN AMRO BANK N.V. Postbus 1000 1000 AA Amsterdam The Netherlands
The Bank of Tokyo (Mitsubishi) B.V. 1000 Third Floor 3000 Amsterdam The Netherlands	Deutsche Bank AG Postfach 10 15 50 50001 Köln Germany
Commerzbank AG Postfach 10 15 50 50001 Köln Germany	First Bank International AG Postfach 10 15 50 50001 Köln Germany
The Swiss Bank, Limited Chambers 18 4800 Düsseldorf 1 Federal Republic of Germany	Crutcher Lewis 19 Boulevard des Capucines Paris, France
Ingos International Corporation S.A. 7 Boulevard des Capucines Paris, France	

DOWA MINING CO.

U.S. \$12,000,000 4 1/4 per cent Guaranteed Notes of the 1994 Warrant

U.S. \$12,000,000 3 1/4 per cent Guaranteed Notes of the 1996 Warrant

Notice is given hereby that DOWA MINING CO. will redeem all outstanding Bonds of this issue on 28th January, 1993. Bonds and Coupons will become void unless presented for payment within the periods of six months and five years respectively. Under the conditions of the Bonds and the provisions of the Trust Deed, Notice is further given that the Redemption Right will occur on the date of business on 28th January, 1993. Up to and including that date conversion may be effected at the Conversion Price of \$128.40 per Common Stock, at the fixed exchange rate of ¥116.00-US\$1.

The principal value of Bonds of this issue outstanding and unconverted at the close of business on the date of business on 28th January, 1993, is \$15,000,000 and the market price of ASICS CORPORATION Ordinary Shares at the close of business on the date of business on 28th January, 1993, was \$19.99 per Ordinary Share.

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Paying and Conversion Agents

Salomon Trust International Limited

Cheong and Poon Planners

London EC2M 3HQ, UK

The First Bank, Limited

71 Lombard Street

London EC3M 3JA, UK

Crutcher Lewis

19 Boulevard des Capucines

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Postfach 10 15 50

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The Swiss Bank, Limited

Chambers 18

4800 Düsseldorf 1

Federal Republic of Germany

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Paris, France

Ingos International Corporation S.A.

7 Boulevard des Capucines

Paris, France







## INTERNATIONAL COMPANIES AND CAPITAL MARKETS

## Nomura to shed 1,400 jobs as part of cost-cutting plan

By Robert Thomson in Tokyo

NOMURA Securities, Japan's largest broker, will shed 1,400 staff - 10 per cent of its workforce - over the next three years and close at least half of the 18 broking "boutiques" opened in Japanese department stores and shopping malls.

The broker has broadened a cost-cutting programme intended to increase profitability after a net loss of ¥5.49bn (\$68.3m) during the first half, when stock brokerage commissions fell by 39.6 per cent and the value of stocks underwritten was 77.4 per cent lower.

A continuing fall in retail investment has prompted Nomura to close or plan to close nine of its 18 "boutiques", which were opened to make

investment more convenient for shoppers. The future of the remaining nine sub-branches is apparently under review.

These boutiques, opened during the late 1980s, are also on the cost-cutting list of other leading brokers. Yamaichi Securities, which had a net loss of ¥15.3bn for the first half, has closed all 10 of the sub-branches established since the Finance Ministry approved the concept in 1985.

Nomura also plans to cut computer system spending by 20 per cent over the next three years, and has asked staff to reduce general expenses, including entertainment and transport costs, by 20 per cent in this half. General expenses were supposed to be 5 per cent lower during the first half.

The reduction of 1,400 jobs

will be done by cutting the annual intake of graduates and by not replacing general staff who retire or resign. Nomura said yesterday that none of its employees in Japan would be sacked.

Cutting staff and computer expenses is in stark contrast to the industry trend of the late 1980s, when companies installed computer networks able to handle a share trading volume far in excess of their needs in the 1990s. Daily share turnover on the Tokyo exchange last month was about a fifth of the 1988 level.

Nomura has already announced a lowering of its international profile.

The broker recently cut 35 staff from its London operations and closed three continental European offices.

## Astra slides as stake sale speculation intensifies

By William Keeling in Jakarta

ASTRA International, Indonesia's troubled automotive company, reported net profits of Rp59.2bn (\$28.6m) for the nine months to December, a 69 per cent fall on year-on-year figures.

The results coincided with renewed speculation that the Soeryadja family, Astra's majority owners, are preparing to sell a substantial stake.

Net of extraordinary items, Astra made Rp16.6bn in the third quarter, an improvement on the Rp5.2bn loss in the second quarter but slightly below brokers' forecasts. Brokers said net profits for the year were unlikely to break Rp80bn, against Rp210bn in 1991.

The Soeryadja family own 57 per cent of Astra but are under pressure to sell shares to raise finance for their privately-owned Bank Summa. Bank Summa was suspended in mid-November with bad debts exceeding Rp1,000bn.

Brokers say Mr Prajogo Pangestu, a prominent Indonesian businessman and a close associate of the family of President Suharto, has emerged as a potential purchaser for a large portion of the Soeryadja family's Astra holding.

Bank Summa's problems have prompted public concern over the wider health of the banking sector, resulting in a run on two banks.

Bank Subentra and Bank Surya have reported large withdrawals following speculation they had fallen into arrears with the central bank. This has been denied by the central bank, which has declared them to be in sound financial health. Mr Sudwikhatmono, a shareholder in both banks and a relative of President Suharto, has called for rumours-mongers to be charged with subversion.

Mr Eka Widjaja will step down as president commissioner of Bank International Indonesia, Indonesia's third largest private bank and a listed company.

## Hungary spices up investor appeal

Nicholas Denton examines a mould-breaking government bond

FOREIGN investors in the Hungarian stock market, until now limited to slow-performing equities, have won direct access to the far more vibrant market in government bonds.

The breakthrough comes with Hungary's invitation to foreigners, along with domestic investors, to subscribe to a mould-breaking five-year state bond.

The "paprika bond," nicknamed after the peppers which spice Hungarian food, is the first long-term government security in post-communist central and eastern Europe to offer a truly fixed coupon.

Kulturvest, a subsidiary of Banque Indosuez Hungary is marketing a Ft7bn (\$84m) issue.

The bond, priced at 99.5 per cent, bears a coupon of 16 per cent with both interest and redemption convertible into dollars at the prevailing exchange rate.

A separate B tranche is to be marketed internationally. The government claims that the issue yield of 16.2 per cent should compensate outside investors for currency risks, which this year has amounted to little over 5 per cent.

The move to widen investor appeal opens up an important new route into Hungarian government paper for foreign investors, who could to date only participate through intermediaries.

The paprika bond provides an alternative to the investment funds focusing on government securities set up by CA Securities, the Hungarian investment banking arm of Austria's Creditanstalt, and four other institutions.

The funds have limited use since they are permitted to sell up to 20 per cent only to foreigners, although some have

effectively worked around the rule.

The latest issue is potentially much more attractive to investors than the three-year bond which launched the government bond market last October but was closed to foreign subscribers.

However, brokers tend to agree that no rush of money is likely to result from the five-year bond issue, symbolically important as it is.

First of all, the Finance Ministry is beginning with a small transaction to "test the market." Moreover, Mr Peter Zelink, manager of Europartners, the Finance Ministry's adviser on the transaction, admits that western interest for the five-year bond is relatively low.

"Investors are simply not aware of the opportunities and the risks attached to the Hungarian forint," he says.

Western brokers argue rather that the yield of just over 16 per cent is simply too low for a path-finding issue, some saying that it would need to be closer to 20 per cent to be attractive internationally.

The five-year bond's significance is more that it sets a standard for follow-up issues. "We are speaking about a new market, not just a new issue: now the forint market is opening to foreign investors," says Mr Zelink.

Treasury bills and the three-year state bond have recently accounted for more than 90 per cent of turnover on the Budapest stock exchange and have dwarfed equities' trading.

The government needs to broaden further the debt market to finance a growing budget deficit.

The Finance Ministry calculates on a shortfall in central government finances

next year of Ft185bn and a total public-sector deficit equivalent to about 6 per cent of GDP.

Reforms of public finances limit the amount that the state can borrow at preferential interest rates from the National Bank of Hungary, the central bank, and pressure is increasing for further securitisation of the existing state debt of Ft1600bn.

The government is moreover eager to diversify state borrowing which currently leans dangerously on commercial bank purchases of Treasuries and central bank borrowing on international bond markets.

The authorities feel the timing is right for the move because Hungary's economy seems to have stabilised.

Inflation, interest and currency depreciation rates have fallen sharply - and have brought investors' economic expectations closer into line with the government's optimism.

However, not everyone is convinced that a wider bond market is an unalloyed benefit for the stock market as a whole.

"It works for the debt market but against the equity market," says Mr Zsigmond Jarsai, the Budapest representative of James Capel, the UK brokerage.

"It depends on what you call a stock market. The real sign of building capitalism is equity rather than debt," he added.

However, other brokers hope that deep markets in government debt will establish a true yield curve and bond benchmarks by which other issues can be priced. "It is helpful for the stock market as a whole," says Mr Andras Simor, managing director of CA Securities.

## Flotation of Chinese property group subscribed 230 times

By Simon Davies in Hong Kong

HONG KONG's enthusiasm for Chinese flotations has not seemingly been affected by this week's share price plunge. The public offer of shares in Guangzhou Investments, a mainland-owned property company, was provisionally subscribed around 230 times when the offer closed yesterday.

The colony's Hang Seng Index has shed 575 points, or 9.6 per cent, in just three days of trading, yet small investors showed sufficient confidence in corporate China to put forward in the region of HK\$100bn (US\$12.9bn) for a \$HK446m issue.

Guangzhou Investment is wholly-owned by the Guangzhou (Canton) Municipal Government and is involved in sizeable property developments in both Hong Kong and China.

Armed with immaculate connections across the border, investors are assuming the company will be able to cash in on booming property prices in



Li Ka-shing: holding group to take a 7.5 per cent stake

premium to its issue price, providing some justification for the response to Guangzhou Investment.

The property company is offering 425m shares at \$1.05 and has the backing of Mr Li Ka-shing's Cheung Kong Holdings, which is taking a 7.5 per cent stake, thereby building up contacts with a potentially useful source of property projects.

The offer period for another major Hong Kong flotation opens today but analysts are less confident over the outcome. National Mutual Asia is the largest public offer since June 1990, but despite the uncertain market climate the underwriters decided to go ahead with the issue.

In May 1989, the colony's largest rights issue by Hopewell Holdings was withdrawn as stock market confidence shattered in the midst of the student demonstrations in Beijing. Merchant bankers had considered it possible the National Mutual flotation would receive a similar response.

Bank Subentra and Bank Surya have reported large withdrawals following speculation they had fallen into arrears with the central bank. This has been denied by the central bank, which has declared them to be in sound financial health. Mr Sudwikhatmono, a shareholder in both banks and a relative of President Suharto, has called for rumours-mongers to be charged with subversion.

Mr Eka Widjaja will step down as president commissioner of Bank International Indonesia, Indonesia's third largest private bank and a listed company.

## WMC to cut nickel production

By Bruce Jacques in Sydney

WESTERN Mining Corporation (WMC), the Australian metals producer, has confirmed production cuts at its Western Australian nickel operations in response to low world nickel prices.

The company has also announced that its Chibougamau gold/copper mine in Canada will be put up for sale.

WMC directors said yesterday the company's nickel division was operating at a loss at current nickel prices.

Directors did not spell out the exact extent of nickel production cuts likely for the current full year, but they said

operational changes would be made at both the Kambalda and Leinster complexes.

"The nickel division will continue with its previously announced long-term expansion and cost-reduction strategy with the objective of lowering total costs below \$2.50 per pound," they said.

"Every endeavour is being made to urgently reduce current spending and enhance WMC's competitive position. The nickel division operations will remain under review having regard to the continuing necessity to reduce costs and the fluctuations in the nickel price."

The Chibougamau operations were marginally economic and could not be sustained at current metal prices. If a sale could not be completed by January 31 1993, the operations would be closed and site reclamation commenced, the company said.

The Australian Mining Industry Council (AMIC) has released figures indicating that net profits of Australian mining companies fell 27 per cent in the 1991-92 year to A\$1.87bn (US\$1.2bn).

It was the industry's second consecutive year of significant decline, with earnings peaking at A\$4.33bn in 1990. It was also the industry's lowest level of profits since 1987.

## GE Capital in deal with UMW

UMW Group of Malaysia has entered into a deal with General Electric Capital Asia Investments to set up a financial services joint-venture in Malaysia. Reuters reports from Kuala Lumpur. Under the deal, GE Capital, part of the General Electric group of the US, will take a 49 per cent equity stake in UMW's Seabank Factors, which will operate as a joint-venture holding company.

Perusahaan Otomobil Nasional (Proton), the manufacturer of Malaysia's national car, reported a 36 per cent fall in pre-tax profit for the six months to September. Sales dipped 12 per cent to M\$908m (US\$363.2m).

## CONTRACTS &amp; TENDERS

REPUBLIC OF LEBANON  
REHABILITATION OF THE POWER SECTOR  
PRE QUALIFICATION OF CONTRACTORS

For the rehabilitation of power, transmission and distribution facilities throughout Lebanon, the Republic of Lebanon has received a joint US\$ 110 million loan from the Arab Fund for Economic and Social Development and the Kuwait Fund for Arab Economic Development, US\$ 30 million equivalent from the Italian Government, and has applied for a US\$ 175 million from the International Bank for Reconstruction and Development (IBRD), part of which will be applied towards the costs of rehabilitation. Negotiations are underway with other donors to secure additional funding.

It is intended that the proceeds of the above loans will be applied to payments to prequalified contractors under contracts to be awarded for the following work packages:

- overhaul, repair and retrofitting of boilers, steam turbines and auxiliaries of the power stations of Zouk (3 x 140 MW and 1 x 170 MW), and Jieh (2 x 60 MW and 3 x 69 MW);
- overhaul repair and retrofitting of six gas turbines at Zouk (4 x 30 MW and 2 x 20 MW);
- reconstruction, repair and retrofitting of 66kv/33kv/11kv substations (about 30);
- reconstruction of 150 kV and 66 kV overhead lines and underground cables;
- reconstruction, repair and retrofitting of distribution networks (33 kV, 11kV and 0.4 kV lines substations) and consumer connections.

The works will be executed under the supervision of consultants appointed by Electricite du Liban/CDR under donors guidelines.

Due to the critical and urgent nature of the work packages the times allowed for bid preparation and, later, implementation at the works will be kept to a minimum. Therefore only contractors who are capable of working under tight schedules and controls need apply for prequalification and such ability will be expected to be demonstrated during the prequalification exercise. Reasons for not prequalifying any firm or consortia need not be given and no costs associated in prequalifying will be reimbursed. Invitations for bidding will only be sent to firms or consortia which are prequalified.

The Council for Development and Reconstruction (GDR) invites contracting forum or consortia interested in bidding for all of the packages, to obtain prequalification documents from the CDR, Beirut - Lebanon that will be available by December 3, 1992. Deadlines for submission of prequalification bids with all supporting material at the CDR offices in Beirut, Lebanon is 12:00 noon on December 21 1992.

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December 3, 1992

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Class A-1 £110,000,000 Class A-3 £17,500,000

Class A-2 £80,000,000 Mezzanine Notes £18,500,000

For the interest period 30th November, 1992 to 26th February, 1993 the Class A-1 Notes will bear interest at 7.8125% per annum. Interest payable on 26th February, 1993 will amount to £1,506.85 per £100,000 Note. The Class A-2 Notes will bear interest at 7.9675% per annum. Interest payable on 26th February, 1993 will amount to £1,925.75 per £100,000 Note. The Class A-3 Notes will bear interest at 8.1375% per annum. Interest payable on 26th February, 1993 will amount to £1,961.92 per £100,000 Note. The Mezzanine Notes will bear interest at 8.5375% per annum. Interest payable on 26th February, 1993 will amount to £2,058.36 per £100,000 Note.

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TRANCHE NO.1

Notice is hereby given that for the interest period 1 December 1992 to 1 March 1993 the notes will bear interest at 0.05125% per annum

Interest payable on 1 March 1993 will amount to FF391.66 per FF500,000 denomination

Agent: Morgan Guaranty Trust Company

JPMorgan

MANUFACTURERS HANOVER  
TRUST COMPANY

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FLOATING RATE SUBORDINATED

CAPITAL NOTES DUE 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the Interest Period 30 November 1992 to 26 February 1993 has been fixed at 7% per cent per annum.

The Coupon Amounts will be \$91.67 for the \$5,000 denomination and \$101.74 for the \$50,000 denomination and will be payable on 28 February 1993 against surrender of Coupon No. 32.

CHEMICAL BANK  
Agent Bank



## INTERNATIONAL CAPITAL MARKETS

## Gilts tumble following disappointing auction

By Sara Webb in London and Patrick Harverson in New York

UK GOVERNMENT bonds fell a quarter-point after the Bank of England's disappointing auction of government bonds.

The Bank offered £2.5bn of a newly-created stock, the 8 per cent gilt due 2003, which is expected to take over as the new 15-year benchmark gilt.

However, demand for the stock was poor: the Bank reported a cover ratio (the

## BONDS

ratio of bids to the amount on offer) of only 1.25 times, and the auction was dominated by domestic players as foreign investors continued to shy away from the gilt market.

The lowest accepted price was 98 1/4, yielding 8.48 per cent, while the highest accepted price was 98 1/2, yielding 8.46 per cent.

The spread of bids was relatively narrow, as dealers pointed out that it was not difficult to price the new gilt.

The bids were very tightly grouped around the market level, said Mr John Sheppard, economist at S.G. Warburg Securities.

The auction was the first since sterling left the European exchange rate mechanism in September. Foreign investors

## FT FIXED INTEREST INDICES

	Dec 2	Dec 1	Nov 30	Nov 27	Nov 26	Nov 25
Govt Sacs (LMD)	92.81	92.90	92.56	93.44	93.76	88.22
Fixed Interest	108.04	107.92	108.01	108.38	108.66	96.03
Basic 100 Government Securities 15/10/78; Fixed Interest 1928						
for 1992 Government Securities high since compilation 127.40 (8/1/85)						
Fixed Interest high since compilation; 110.26 (12/1/92), low 50.33 (3/1/75)						



## COMPANY NEWS: UK

Management changes will result in splitting of leadership roles

## Standard Chartered chief to quit

By Robert Peston, Banking Editor

MR RODNEY GALPIN is standing down as chairman and chief executive of Standard Chartered, the UK-based international banking group.

From the beginning of the year, the post of chief executive will be held by Mr Malcolm Williamson, currently Standard's managing director.

Mr Galpin, who is 60, will hand over the chairmanship in May to Mr Patrick Gilliam, former managing director of British Petroleum. Mr Gilliam is currently Standard's deputy chairman.

Mr Galpin joined Standard in July 1988 and became chairman and chief executive three months later. His appointment was

encouraged by the Bank of England, which feared that confidence in Standard was eroding as a result of its poor financial performance.

Immediately before he joined the bank, Standard had narrowly escaped being taken over by Lloyds. However, its shares were controlled by three Far Eastern investors, the late Mr Robert Holmes à Court, Mr Tan Sri Khoo Puat and Sir YK Pao, known as the White Squires.

Since then Mr Galpin, who had been an executive director of the bank with responsibility for supervision, reorganised Standard's management and has overseen a steady improvement in profits. He also reduced the influence of the White Squires over Standard's affairs.

However, investors became concerned in

the spring that Standard was still prone to accidents, when the bank became embroiled in a Bombay stock exchange scandal involving the forgery of securities. Standard has been forced to make a £100m provision to cover the risk of losses from its exposure to these securities.

Mr Galpin said yesterday that he had been thinking about retiring for two months. The management changes at Standard were approved by the board on Tuesday. He said he had recommended that Mr Gilliam should succeed him.

He described the Indian losses as "very annoying" but said he was confident that the bank was now robust.

Standard also disclosed that two of its executives, Mr David Molr and Mr David Brougham, were also joining the board.

## Life side helps M&amp;G edge ahead to £39.4m

By Philip Coggan, Personal Finance Editor

A STRONG showing by its life insurance subsidiary helped M&G, the fund management group, record a marginal increase in pre-tax profits in the year to September 30.

Profits for the year were £39.4m (£39.24m). But the annual figures masked a 7 per cent fall in second half profits year-on-year.

M&G said that the first half figures had benefited from the launch of two investment trusts, Recovery and Income. The launches were net revenue earners, although they did cause a 78 per cent increase in marketing and commissions expenditure.

In the second half, the company shed 67 staff, including its former managing director, Mr Tim Miller, resulting in total costs of £500,000. Offices were closed in Cardiff, Exeter and Southampton as part of a restructuring programme.

Insurance income rose from £1.6m to £10.1m, outweighing a fall in earnings from institutional fund management (down from £2.15m to £1.95m), and retail fund management (down from £2.44m to £2.10m).

Sir David Money-Coutts, chairman, said that unit trust sales fell from £468m to £296m, while redemptions rose from £245m to £240m.

Funds under management were £8.59bn at the end of September, down from £9.01bn at the end of the 1990-91 financial year. However, these figures reflect some double-counting because of unit holdings by life and pension funds.

The "clean" figure for the end of September was £7.47bn. Earnings per share came to 36.57p (36.1p). The final dividend was increased 2.3 per cent to 11p (10.75p), making a total for the year of 20p (19p).

Mr Money-Coutts said that the company's performance was "in line with expectations" and that the company was "well placed to meet the challenges of the future".

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## Lower interest costs help lift London Electricity to £17m

By Michael Smith

LOWER INTEREST costs helped London Electricity to increase interim pre-tax profits from £14.5m to £17.3m, in spite of lower operating profits due partly to reduced distribution charges.

The interim dividend was increased by 12 per cent from 5p to 5.6p, but the company was more cautious than others have been in recent years about growth prospects.

Mr John Wilson, chairman, said the policy was to achieve consistent growth in dividends "taking into account the expected medium-term trend in earnings".

In the six months to September 30, operating profits of £14.5m (£14.8m) were achieved on turnover of £584.3m (£588.5m). Total units of electricity distributed fell by 1 per cent. However, with weather factors, the company said underlying trends were for 0.7 per cent growth.

Commercial growth was 1.3 per cent (lower than in the last few years). The reduction was

attributed to the effect of the recession, particularly on small commercial customers.

The introduction of lower distribution tariffs in April, contributed to the decline in distribution profits from £58m to £54m. The supply business reduced losses to £35m (£38m).

Mr Wilson said a decision would be made by the end of the year about the retailing business, reduced from 60 outlets two years ago to about 20. Some analysts expect closure.

Total retail sales had risen as a result of increased selling space, but the business was adversely affected by market conditions. The programme to separate retailing from customer services, both financially and physically, would be completed by the year-end.

Electrical contracting had already been restructured, and with a reduced workforce of 100 (400), was breaking even. A reduction in debtor days - a measure for outstanding accounts - from 38 to 29 contributed to a marked fall in borrowings and a reduction of £2.5m in net interest

paid to £3.1m.

## COMMENT

The cautious policy on dividends is perhaps typical of a company that critics say is too plodding to merit its medium rating among regional electricity companies. London tends to brag its merits less than other regional electricity companies and it is less adventurous. Its involvement both in retailing and independent gas-fired generation, where the risks and rewards are greater than in the core businesses, is below average. Supporters say the company is more likely than others to end up on the right side of the regulator in forthcoming pricing negotiations, especially after its improvement in customer service, particularly disconnections, and its separation of retailing from servicing. The latter will eliminate suspicions, to which other RECs are vulnerable, of cross subsidies. Assuming a 12 per cent dividend rise to 18.8p, the shares are on a prospective yield of 5.9 per cent.

## TT in £13m bid for AB Electronics

By Richard Gourlay

TT GROUP, the industrial holding company, yesterday ended five months of friendly talks with AB Electronics by making a recommended £13m bid for the Welsh-based group that has been mauling by failing contract assembly, defence and automotive markets.

TT's offer of 10 new shares for 37 AB shares has the unusual feature of valuing its target's shares at 49.2p, or nearly 7p below the market price before the bid.

In July TT took a 6.3 per cent stake in AB, which pushed the share price up to 90p, since when it has slipped back. It now controls an 8 per cent stake.

TT is offering a full cash alternative of 45.1p, underwritten by Samuel Montagu. In conjunction, Samuel Montagu is raising £7.7m through a plac-

ing of 4.59m shares at 167p, subject to clawback by existing shareholders.

TT's gearing is likely to rise to 60 per cent as a result of the deal, which comes hard on the tail of the acquisition of Magnetic Materials in July.

Mr John Newman, TT chief executive, said the offer price reflected AB's trading outlook. He said the two companies had compatible businesses. TT is likely to focus on the costing and range of AB's products and integrate distribution and manufacturing facilities.

Sir Peter Phillips, AB's chairman, said in a statement that his company had faced tough trading conditions coupled with rationalisation and reorganisation costs. There was also evidence of a "faltering in the recent improving trend in order taking".

Mr Newman is the third ex-Hanson employee to launch

in the past few months. He follows Mr Greg Hutchings at Tomkins, which is bidding for RHM, and Mr Chris Miller at Wassell, who is bidding for Evode.

For 10 years after leaving Hanson's acquisitions department in 1977, he ran private companies before reversing two of them into Tyzack Turner.

Since then, the renamed TT has developed a reputation as an acquisitive industrial conglomerate. But the purchase of Crystallite in 1989, Magnetic Materials earlier this year and now AB, has effectively transformed the group into an electronics product group for the time being.

AB's fall, from a market capitalisation of more than £120m in 1987 to less than £16m yesterday, has been in line with the waning fortunes of the electronics industry.

TT's share price fell 4p to 182p yesterday.

Based in the Rhondda Valley in Wales, AB has been a large component assembler of electronic systems and surface mount boards (SMT) for blue-chip customers such as IBM, Olivetti-Acorn and Jaguar.

But AB has been hit hard in all three of its markets. Demand for board assembly has fallen with demand for computers; its automotive division has been hit by a fall in demand for sensors, particularly from the luxury end of the market; and its components division has been hit by the slowdown in defence spending.

Sir Peter Phillips has been invited to join the TT board, at least until next year's AGM. NM Rothschild has advised AB shareholders that the TT offer is fair.

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## Erskine House down 29% as UK machine sales suffer

By Peggy Hollinger

PRE-TAX profits at Erskine House, the office equipment services company, tumbled 29 per cent to £4.7m following a severe decline in UK machine sales.

Mr Brian McGillivray, chairman, said the group was "searching very hard" for signs of a pick-up in UK trading, but there had been none so far. New machine sales had fallen by 24 per cent in the UK in the first half, with margins under severe pressure.

Germany was also proving more difficult than last year, he said, although the US continued to show improvement.

As a result of this, and exceptionally difficult trading in October and November, Mr McGillivray said about £1m in annualised costs had since been taken out of the services division and administration.

The sales force had already been cut by 50 per cent over the past 18 months.

During the six months to September 30, overall sales fell from £89.1m to £57.3m.

Turnover in the UK declined by 11.4 per cent to £24.9m, with operating profits down by 80 per cent to £1.2m.

In Germany, the operating profit slide from £745,000 to £214,000 had been disappointing, but there was an improvement on the second half.

The good news from the US, with dollar profits 9 per cent ahead, was virtually wiped out by currency translations. In sterling terms, US operating profits were flat at £5.1m (£5.02m). Mr McGillivray said the US was "getting better, but not yet booming".

He expected the losses on exchange rates in the first half to be offset in the latter period by the devaluation of sterling.

The dividend was maintained at 3p, reflecting "a degree of confidence that we are capable of improving", said Mr McGillivray.

Earnings fell from 6.3p to 2.5p per share, hit by a £500,000 write-off in advance corporation tax. Mr McGillivray said that put taxation on UK profits at about 60 per cent.

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## Reduced interest income leaves Cape 9% lower

By Peggy Hollinger

REDUCED interest income depressed profits at Cape, the building products and industrial services company, by 9 per cent to £5.52m for the first half.

At the operating level, Cape returned virtually flat profits of £5.39m (£5.37m). However, a £866,000 drop in interest gains to £131,000 left the pre-tax line £960,000 lower on sales 31 per cent ahead to £128m.

Mr Keith Jackson, finance director, said profits had been bolstered by strong growth in the industrial division, which offset a decline in building services.

Industrial operating profits were 36 per cent ahead to £4.1m, enhanced by the inclusion for a full six months of the Cleton Insulation business in the Netherlands. Since being purchased for £4.4m in July last year it had "performed extremely well", Mr Jackson said.

However, growth in the industrial services activities - which supply insulation and

scaffolding to the power and petrochemical industries - was beginning to flatten out.

On the building and architectural products side, operating profits fell 24 per cent to £3.2m on turnover just 5 per cent down at £35.5m. Mr Jackson said there was no sign of an improvement in this division, particularly in the UK.

Cape continued to reduce its dependence on the recession-hit UK, with overseas sales amounting to some 44 per cent of group turnover, against 32 per cent last time.

Since the previous year, two industrial services companies had been purchased for a total of about £2m - one in the UK and the other in Germany.

This, along with increased capital expenditure for the year of £8.5m (£7.5m), was partly behind the decline in cash balances from £8.8m to £5.8m.

Mr Jackson said at least one further bolt-on acquisition was planned before the end of the financial year.

The dividend was maintained at 3p, on earnings per share down from 9.3p to 8.2p.

## Branson halts share sale for Virgin Atlantic expansion

By Paul Betts in Orlando

MR RICHARD BRANSON has put on ice plans to sell a 10 to 25 per cent stake in Virgin Atlantic Airways. He says the future of his carrier and other smaller independent airlines is threatened by European Commission proposals on allocation of take-off and landing slots at congested EC airports.

Virgin announced earlier this year that it was seeking to raise about £50m by selling a minority stake in its airline operations to investors to help fund expansion of routes and new aircraft.

But Mr Branson said in Orlando yesterday that those plans were now in jeopardy because Virgin could not secure additional slots at London's Heathrow airport to operate new international services. He also said EC transport ministers were expected to approve next week new regulations on slots that were likely to make it even harder for smaller air-

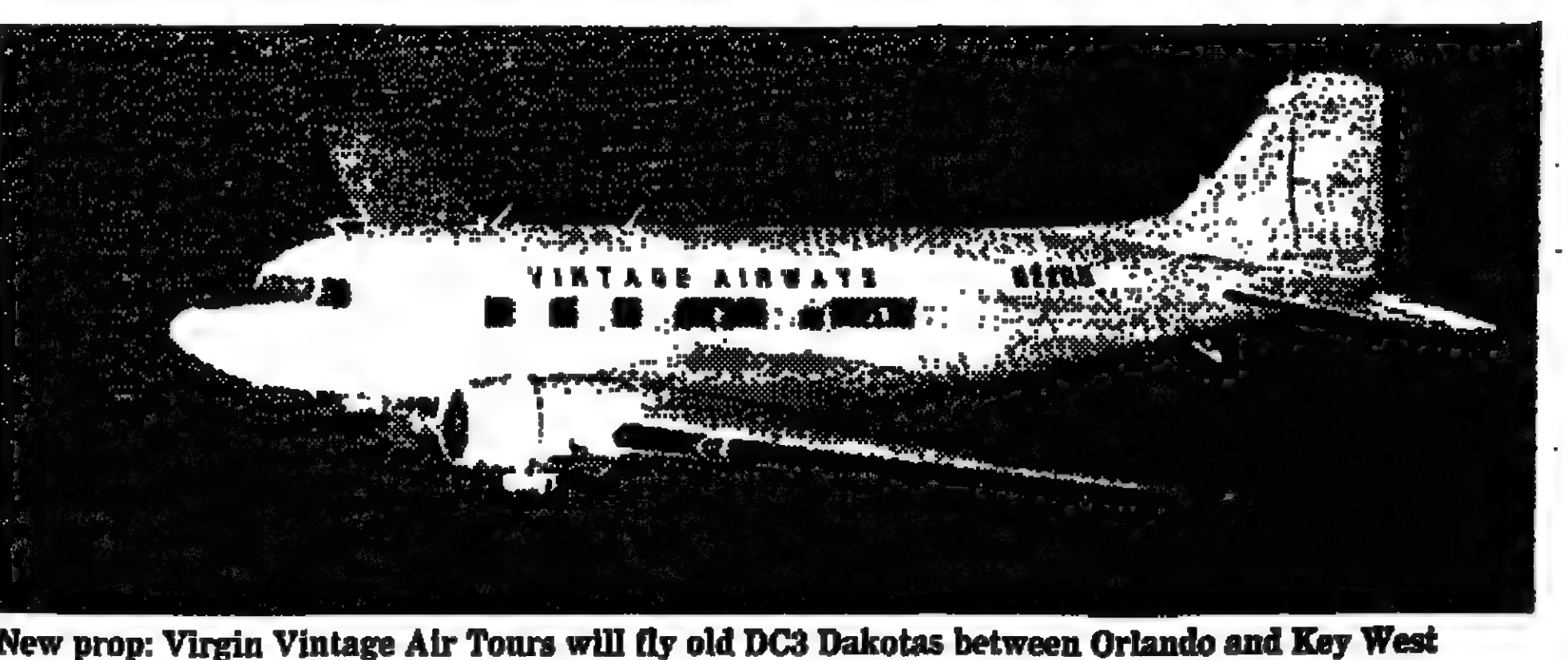
lines to gain access at congested European airports.

"Without additional slots at Heathrow, the airline's development will come to a full stop," Mr Branson warned. Potential investors in the airline were also holding back until Virgin's slot problems were clarified.

Virgin wants to expand flights from London to San Francisco, Johannesburg, Washington, Singapore and Australia as well as starting a shuttle service between London and Paris, called Le Virgin Shuttle, to compete with British Airways and other large flag carriers.

In Florida yesterday, Mr Branson launched a new holiday airline called Virgin Vintage Air Tours, operating old DC3 Dakotas between Orlando and Key West. The venture is also considering flying from Key West to Havana, Los Angeles to Palm Springs, and between Miami and Orlando.

Mr Branson said Virgin was



New prop: Virgin Vintage Air Tours will fly old DC3 Dakotas between Orlando and Key West

considering acquiring or leasing up to 18 wide-bodied aircraft over the next six years to expand and renew its fleet. Virgin currently operates eight older Boeing 747-200 airliners.

Mr Branson said he was looking at the new Boeing 777 powered by Rolls Royce Trent engines, as well as Airbus A340 long-range airliners.

Virgin's expansion was

expected to double the airline's workforce from 3,000 to 6,000 over the next four years.

Although the new EC proposals were designed to give smaller carriers more opportunities to compete at crowded airports like Heathrow, Mr Branson said the latest plans risked consolidating the dominance of big flag carriers at these airports.

Mr Branson has written this week to Mr John MacGregor, UK transport secretary, asking him to block the proposals, due to be considered by EC transport ministers next Thursday as part of the liberalisation of European air transport.

Virgin says the EC plans would legalise the controversial system of "grandfather rights" whereby an airline has

automatic rights to slots it has historically held at an airport.



COMPANY NEWS: UK

# Christian Salvesen rises 12%

By Angus Foster

CHRISTIAN Salvesen, the distribution, specialist hire and manufacturing group, yesterday announced slightly higher than expected profits and a 10 per cent dividend increase.

Pre-tax profits rose 12 per cent, from £36.1m to £40.4m, in the six months to September 30, helped by strong growth from mobile power generator hire and steady gains from UK distribution. All divisions increased profits except for Salvesen Brick, the specialist brickmaker which continued to suffer from lower prices.

Mr Chris Masters, chief executive, said the group's main markets were affected by recession. "Despite that, we're well ahead," he said.

The distribution division, where customers include Marks & Spencer and Sainsbury, increased operating profits 8 per cent to £16.8m. New contracts helped profits in the US and Benelux, although the lorry drivers' strike reduced profits in France by £250,000. The loss-making Langnese-Iglo contract in Germany, which was fully provided against in previous years, was terminated on November 30.

Aggreko, which hires out power and temperature control



Chris Masters: main markets affected by recession

equipment, escaped the downturn in UK construction because of its wide customer base. Profits increased 23 per cent to £15.4m. About £1m of profit came from supplying equipment to the Barcelona Olympics.

Manufacturing, which includes food services, saw profits fall £500,000 to £10.5m after the brick division's profits fell £1m to £1.5m. Turnover increased 3 per cent to £254.5m while operating profits gained nearly 12 per cent to £43.6m. Interest costs were £3.2m (£2.5m). Proceeds from the £22.5m sale of Salvesen (Oilfield Technology),

where £11.2m was booked as an extraordinary profit, helped reduce net borrowings £20m to £80.7m. Gearing fell from 35 per cent to 23 per cent. Earnings increased to 10.12p (9.01p). The interim dividend is lifted to 3.2p (2.5p).

COMMENT

These figures earned well deserved applause and Salvesen's shares gained 15p to 346p, an all time high. Distribution continued to provide the backbone and although markets such as the UK look mature, there is further growth in Europe. But Aggreko was the star performer, even discounting the one-off gains in Barcelona. Its strengths are that it makes its own equipment and owns its distribution network, allowing healthy margins and flexible deliveries. The same advantages are now being applied to temperature control equipment, recently introduced in Europe from the US, and initial results are promising. Full year profits of £74m put the shares on more than 18. This does not look excessive. But after rising nearly 40 per cent in the last year, the shares may need a breather once follow through buying from the results dies down.

## Dairy Crest 39% up but warns on margins

By Maggie Urry

DAIRY CREST, the milk and dairy products group which is to float in 1994, announced a 38.7 per cent rise in pre-tax profits to £17.2m for the half year to September 30.

The company, a subsidiary of the Milk Marketing Board, will be divested when the MMB is replaced by a co-operative in 1994.

Mr Geoffrey John, chairman of Dairy Crest, said that the business was constrained by its ownership. He said the group could not issue shares for acquisitions, was strictly limited in its operations to liquid milk and milk manufacture in England and Wales, and was still regarded as "user of last resort" for milk, putting it at a disadvantage to other buyers.

He said the company's strategy was to be in a position to compete with other dairy groups by the floatation.

A rationalisation programme was aimed at making Dairy Crest a low cost producer.

It had also made two strategic deals. It bought half of Unigate's liquid milk activities in 1989, giving it a 17 per cent share of that market. Last year it formed a joint venture with Yoplait of France on fresh products, such as yoghurts and desserts, which is the fastest growing sector of the dairy market but one where Dairy Crest had not been represented.

Mr John said that in the half year the volume of milk it was able to buy for processing fell by 5 per cent as quotas on milk began to bite. However, higher selling prices allowed turnover to rise 1.4 per cent to £274.8m.

In the second half significantly higher milk prices for milk used for manufacture would put margins under pressure, he warned.

Mr John Houlston, chief executive, said cost cutting, including a reduction of 1,000 in staff over the last year, helped push operating profit up 8.6 per cent to £28.5m. Operating profits per employee had risen by 21.6 per cent in the half year.

Associates, mainly the joint venture with Yoplait, contributed £500,000 (£100,000).

A fall in interest charges of £3.4m to £4.9m, of which about £2.8m came from lower borrowings and the rest from offset a rise in exceptional costs to £5.4m to £6.8m. Those costs related to the rationalisation programme and the cost of moving dairy delivery milk rounds to franchises.

Advisers to National Express will be hoping that large investors left short of stock because of the rationing will top up in the after-market, so leading to a premium when dealings begin on December 10.

Morgan Grenfell is sponsor to the issue, with Smith New Court as broker.

over was lower at £61.5m (£58.5m).

Losses per share were 0.4p (earnings 5.5p). The interim dividend is again 5p.

Rowlinson edges ahead to £515,000

Rowlinson Securities, the property group, showed a small improvement in pre-tax profits, from £503,000 to £515,000, in the six months to end-September.

Gross rental income was £1.68m (£1.62m) and sales by the development and contracting divisions jumped to £2.76m (£2.41m), but operating profit fell to £1.4m (£1.47m). Finance charges, however, were reduced to £282,000 (£271,000).

Earnings per share were 2.76p (2.7p) and the interim dividend is again 0.2p.

Reduced losses for Harrison Industries

The enlarged Harrison Industries group, specialist engineer, reduced its pre-tax losses from a pro forma £594,000 to £455,000 in the six months ended September 30 1992.

These are the first interim results since the enlarged group was formed by the takeover of Harrison by Antares Group and since the subsequent management and name changes.

Turnover was £25.8m (£26.1m) and losses per share were 0.3p (0.48p).

## Pub sales bring in £440m for Bass

By Philip Rawstorne

BASS, the UK's leading brewer, yesterday split out the full effects of the enforced sale of 2,700 of its pubs to comply with government beer orders.

Total receipts from the sales in the year to September 30 were £440m, an average price per outlet of £162,000 and 18 per cent above book value.

"We secured better value for shareholders by selling rather than leasing free of exclusive beer supplies," said Mr Ian Prosser, chairman.

The group benefited from an early start to its disposal programme. The 1,500 outlets sold before the end of 1991 realised

£256m, an average of £169,000; the remaining 1,200 fetched £184m, an average of £153,000.

This decline prompted a revaluation of all Bass properties, resulting in a write-down of £496m. Of this, £480m has been taken to revaluation reserve, and £16m charged to the profit and loss account. The write-down compares with a £1bn surplus at the last revaluation in 1989.

Pub profits were 25 per cent lower at £174m (£231m) on turnover of £1.1bn (£1.17bn).

Bass estimates that £40m of the profits decline was accounted for by the reduction in the estate. The rest was due to lower consumer spending,

allied to a shift to drinking at home, and increased overheads and repair costs.

All of the beer volume lost with the reduction of the tied estate, however, was recouped by the brewing division's success in the more competitive free houses trade and take-home market.

Free-trade volumes grew nearly 10 per cent, and loans to free outlets increased from £398m to £485m. Supplies to the free trade now represent two-thirds of total production. There was a 5 per cent increase in volume sales; and a 6.5 per cent rise in exports.

Bass is left with an estate of

about 4,600 pubs, nearly a third of them under direct management. Spending on refurbishment and information systems amounted to £110m last year, and a further 1,000 pubs will be renovated this year.

An exceptional charge of £78m this time for rationalisation and reorganisation costs within the brewing and pubs operations follows a similar charge of £55m last year. "We do not expect any further provisions," Mr Prosser said.

With the UK restructuring almost completed, he is beginning to think tentatively about the possibilities of expanding the group's brewing operations overseas.

## GEC edges ahead to £356m

GEC REPORTED A "notably strong" performance in its three main divisions for the six months to September 30, though market conditions were not always favourable. Several other of its businesses were hit by recessionary conditions, however.

The company said "the devaluation of sterling and the recently announced improvements in EOGD cover will help us in our drive to win vital overseas orders".

On sales of £4.36bn (£4.49bn), pre-tax profits were £356m

(£346m). After tax of £119m (£117m) and minorities unchanged at £21m, attributable profits were £216m (£206m). Earnings were 8p (7.7p) and the interim dividend has been raised to 2.65p (2.55p).

Divisional pre-tax profits were: electronic systems £87m (£86m); power systems £77m (£85m); telecommunications £51m (£50m); consumer goods £7m (£5m); electronic metrology £3m (£17m); office equipment and printing £15m (same); medical equipment £14m (£13m); electronic compo-

nents £5m (£7m); industrial apparatus £2m (£2m); distribution and trading £5m (£7m); less other activities losses £4m (£5m).

The order book rose to £11.9bn, an increase of 12 per cent since the March year end. Orders within GEC Marconi, the defence subsidiary, were 7 per cent higher at £4.9bn.

Privately-funded research and development, including the company's share in joint ventures, was 13 per cent lower at £184m. Capital expenditure was 30 per cent lower at £97m.

## National Express offer twice subscribed

By Richard Tomkins, Transport Correspondent

THE OFFER for sale of shares in National Express, the biggest scheduled coach service operator in the UK, was more than twice subscribed, it was announced yesterday.

This means only applications for 250 shares will be met in full. Others will be scaled down - in the case of the largest ones, to a third or less of the number of shares requested.

The total number of shares sold in the flotation was 27.5m, of which 75 per cent was placed at 165p per share with institutional investors and the remainder offered for sale.

Valid applications were received for 14.7m shares, but with only 6.9m available in the public offering, the result is a heavy scaling-down.

The allocation was as follows: for 250 shares - in full; for 500 shares - 75 per cent; between 600 and 1,000 - 65 per cent; between 1,500 and 5,000 - 50 per cent;

6,000 to 10,000 - 45 per cent; 15,000 to 100,000 - 40 per cent; 120,000 to 150,000 - 34 per cent; 180,000 to 500,000 - 23 per cent; for more than 500,000 the allocation will be about 29 per cent.

Advisers to National Express will be hoping that large investors left short of stock because of the rationing will top up in the after-market, so leading to a premium when dealings begin on December 10.

Morgan Grenfell is sponsor to the issue, with Smith New Court as broker.

NEWS DIGEST

### 4% advance lifts Alba to £1.2m

DESPITE the recession Alba produced satisfactory results in the home market and, overall, lifted interim pre-tax profit by nearly 4 per cent.

For the six months ended September 30 1992 the profit came to £1.2m (£1.16m). Turnover fell almost 9 per cent to £45.1m (£49.5m). Earnings per share were again 1.65p and the interim dividend is held at 1p.

The group makes audio, television and domestic appliances under the Alba, Bush and Hifi brand names, and they were achieving substantial market share, said Mr John Harris, the chairman.

### London & Provincial £4.37m in the red

London & Provincial Shop Centres (Holdings), the main subsidiary of Randworth Acquisition, which is in administrative receivership, announced a pre-tax loss for the year to end-June of £4.37m, against a profit of £207,000 last year.

The result includes an exceptional cost of £2.4m (nil) relating to the write-off of a loan to Randworth, and a £254,000 provision for the fall in value of investment properties. There was a tax charge of

£1.27m (£587,000 credit) because of an underprovision from a prior period, after which the retained loss for the year was £5.64m (£1.47m profit).

Losses per share came out at 34.7p (9.1p earnings).

### Substantial cut in Quilligott losses

Quilligott, which makes and installs terrazzo and other specialised industrial flooring, made substantial inroads into its losses in the half year ended September 30.

Although turnover fell £1.58m to £8.45m, pre-tax losses declined from £845,000 to £228,000. The cost reduction programme took £80,000 (£202,000) in exceptional charges. Losses per share were 0.33p (2.38p).

### Slough Ests sells park for £62.5m

Slough Estates has sold Suttons Business Park in Reading to Standard Life Assurance for £62.5m. The 55-acre park contains buildings totalling 780,000 square feet.

### TV-am starts asset repayment with 40p

TV-am, which has lost its breakfast-time licence, is to start repaying assets to shareholders through a substantial dividend.

On December 29 it will pay a second interim dividend of 40p per share, at a cost of £26.7m, excluding associated ACT of £9.9m, from distributable reserves.

Results for 1992 should be announced in February and the directors intend to recommend a final dividend. No ultimate decision will be taken on the future of TV-am, in its much reduced form, until then, and possibly not for some time thereafter.

Assuming no further investment opportunities have arisen, the directors expect to recommend a liquidation or distribution of the assets.

The Stock Exchange will suspend the USM quote unless the company identifies a new core business to shareholders by the end of the year. However, the company will seek cancellation of the listing on January 4 so that dealings can take place under Rule 635(2).

### Dry dock effect lowers LOF to £1m

Loss of hire while London Spirit was in dry dock in Singapore was behind the profits decline to £1m (£540,000) at London & Overseas Freighters in the six months to September 30.

Announcing the 19.5 per cent fall from a previous £1.24m the tanker company pointed out that these results related to the period before the change in domicile.

Under a scheme of arrangement a new vehicle, London & Overseas Freighters was recently re-established in Bermuda. It was also expanded to include Scoreby, a fellow company in the Kulkundis family stable.

In the six months under review net freight and hire income was little changed at \$5.5m (\$5.77m) and vessels' operating costs rose to \$2.6m (\$2.44m). Provision for deferred repairs took \$265,000 (\$279,000).

Earnings per share translated to 4.3p (5.38p).

### Spring Ram has 94.35% of Stag

The recommended offer by Spring Ram Corporation to acquire Stag Furniture has been declared unconditional in all respects.

Spring Ram can now speak for 94.35 per cent of the Stag capital and will leave the offer open for acceptance until further notice.

### Rationalisation costs leave Caffyns lower

Caffyns, the south-east motor dealer, improved its operating profit in the half year ended September 30 1992, but saw its pre-tax profit fall substantially.

It dropped from £297,000 to £102,000 after charging £94,000 for branch rationalisation, whereas credits of £285,000 were taken in last time. Turn-

over was lower at £61.5m (£58.5m).

Losses per share were 0.4p (earnings 5.5p). The interim dividend is again 5p.

Rowlinson edges ahead to £515,000

Rowlinson Securities, the property group, showed a small improvement in pre-tax profits, from £503,000 to £515,000, in the six months to end-September.

Gross rental income was £1.68m (£1.62m) and sales by the development and contracting divisions jumped to £2.76m (£2.41m), but operating profit fell to £1.4m (£1.47m). Finance charges, however, were reduced to £282,000 (£271,000).

Earnings per share were 2.76p (2.7p) and the interim dividend is again 0.2p.

### Reduced losses for Harrison Industries

The enlarged Harrison Industries group, specialist engineer, reduced its pre-tax losses from a pro forma £594,000 to £455,000 in the six months ended September 30 1992.

These are the first interim results since the enlarged group was formed by the takeover of Harrison by Antares Group and since the subsequent management and name changes.

Turnover was £25.8m (£26.1m) and losses per share were 0.3p (0.48p).

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Acquisitions Monthly

## Nippon Oil Company, Limited

- U.S.\$50,000,000 5 1/2 per cent. Convertible Bonds due 1998 (the "No.1 Bonds")
- U.S.\$50,000,000 3 1/2 per cent. Convertible Bonds due 1999 (the "No.2 Bonds")
- U.S.\$70,000,000 3 per cent. Convertible Bonds due 2000 (the "No.3 Bonds")

Pursuant to Condition (L) of each of the Terms and Conditions of the Bonds of (i) the Trust Deed dated 22nd March, 1983 concerning the No.1 Bonds, (ii) the Trust Deed dated 8th March, 1984 concerning the No.2 Bonds and (iii) the Trust Deed dated 7th May, 1985 concerning the No.3 Bonds, notice is hereby given as follows:

Nippon Oil Company, Limited has made an issuance of Yen 50 billion convertible bonds due 2000 on 25th November, 1992 at the initial conversion price of 628 Japanese Yen per share which is less than the current market price per share of 653.90 Japanese Yen on 25th November, 1992 calculated as provided in Condition 6 of each of the Terms and Conditions of the Bonds of each Trust Deed.

As a result of such issuance and pursuant to condition 6 of each of the Terms and Conditions of the Bonds, the conversion prices of the respective Bonds have been adjusted effective as from 25th November, 1992 (Japan time) as follows:

- |   |   |
|---|---|
| (i) Conversion Price of the No.1 Bonds:   | Before adjustment: 834.60 Japanese Yen<br>After adjustment: 832.40 Japanese Yen |
| (ii) Conversion Price of the No.2 Bonds:  | Before adjustment: 910.60 Japanese Yen<br>After adjustment: 908.40 Japanese Yen |
| (iii) Conversion Price of the No.3 Bonds: | Before adjustment: 839.10 Japanese Yen<br>After adjustment: 836.90 Japanese Yen |

NIPPON OIL COMPANY, LIMITED

December 3, 1992

3-12, Nishi-Shinbashi 1-chome, Minato-ku, Tokyo, Japan



## COMMODITIES AND AGRICULTURE

# Disillusioned traders push oil prices still lower

By Deborah Hargreaves

CONFIDENCE IN the oil market weakened further yesterday when prices for North Sea Brent crude oil for delivery in January slipped by another 20 cents to \$18.30 a barrel.

World oil prices have lost a dollar a barrel in just over a week as traders have become disillusioned with the ability of the Organisation of Petroleum Exporting Countries to support the oil price.

"The market is not convinced by last week's Opec

agreement. There have been no signs that Saudi Arabia and Iran will actually cut back their production," said Mr Peter Bogin, at Cambridge Energy Research Associates.

Mr Aliro Parra, Venezuela's energy minister and Opec's current president, said in comments to the Reuters news agency yesterday that he could not understand why the market had weakened following the agreement to cutback output to 24.58m barrels a day from 25m b/d.

He said it was a realistic

agreement and had the full support of all members.

But weak prices for oil products have also been dragging the crude market downwards. Europe remains well-stocked with products such as gasoline for which prices have dropped by \$5 to \$10 a tonne over the past month to \$174 a tonne.

The weather in Europe and North America remains warmer than forecast leading traders to fear that stocks of oil will not be run down very quickly and could further depress prices early next year.

## Protection planned for banana suppliers

By David Dodwell, World Trade Editor

THE UK and France are planning "intermediate measures" to protect traditional banana suppliers, in case disagreement over reform of the European Community's banana import regime prevents settlement by the start of 1993, Mr John Gummer, Britain's farm minister, said yesterday.

Addressing a House of Commons Agriculture Committee, Mr Gummer defended a recent British move to break deadlock over the shape of reform by suggesting tariff-based options. At present, traditional suppliers are protected by quota arrangements: "We are not tied to a method: we are tied to an end," he said.

He emphasised that the UK was pressing hard for an "imminent" breakthrough, but at the same time expressed concern at the lack of progress towards settlement of differences between countries like Germany, Belgium and Denmark, which import cheaper "dollar" bananas from Latin America, and the UK, France, Spain and Portugal, which reserve their markets for more expensive suppliers (mainly in the Caribbean) as part of aid obligations under the Lomé convention.

Controversy has arisen because when the single market is set up on January 1 next year, cheap dollar bananas will be able to flow freely across the EC, putting the plight of traditional suppliers in jeopardy. Mr Gummer warned that whether the new regime were tariff-based or quota-based, "countries like Germany or Belgium" that never previously had to bear any burden now realise this is a community burden which will inevitably have an impact on banana prices.

"Everybody has an interest in getting a solution by January 1. If we don't then there will be five EC countries insisting on interim arrangements... Do we want the community, on the very first day of the single market, to be rent asunder by political obligations?" he warned.

Meanwhile yesterday the European Commission approved a French request effectively halting further imports this year of bananas from Ivory Coast and Cameroon, which exceeded their quotas by 18.4 per cent and 10 per cent respectively in November, according to a French official.

## Bad weather dampens US maize hopes

By Laurie Morse in Chicago

COLD, WET weather and early snow storms ended the maize harvest prematurely in some parts of the upper Midwest last week, and set market bulls in Chicago talking about quality problems that could reduce the size of the bumper crop.

However, state agronomists and crop analysts say the quality problems are localised. The US maize crop is so large, and the quality of harvested grain is so high, that there is little chance that the US Department of Agriculture's estimate of a 9.83bn bushel crop will be revised downward by more than a few million bushels.

The USDA next reports preliminary crop estimates on December 10. Final numbers on the US maize harvest will be released in January.

Still, high moisture content in much of the nation's maize crop will require costly drying and special handling, trimming growers' profits. And in scattered areas, high moisture and a short growing season have lowered test weights and generated mould growth - a condition that leaves the maize unfit for export or livestock consumption.

"What we have is an abundance of good quality corn (maize) nationally, and an abundance of low quality corn

in small areas," says Mr David Miller, an Illinois-based American Farm Bureau analyst.

The US maize harvest is usually complete by the end of November. However, about 7m bushels, or about 20 per cent of the crop, is still standing in the fields in Iowa and Illinois, the biggest maize-producing states. About 80 per cent of Indiana's maize crop is still in the field. Most of that grain will eventually be harvested, although farmers might wait until mid-winter freezes make the muddy fields safe for combines. In the meantime, the grain will be subject to moisture and mold.

The situation in northern states is more severe. Only half

of Wisconsin's maize crop has been cut, and in Michigan, three quarters of the acreage is awaiting harvest. Those states were projected to harvest about 600m bushels, with more than half grown for on-farm livestock feed.

Much of that crop will not be harvested. Green, or underdeveloped, kernels and mold have reduced the value of the maize there. County officials report that farmers are plowing some fields under, or chopping the maize for silage. "Very little of our corn is intended to be abandoned, but a lot may end up that way," says a farm agent from Wisconsin's Sauk County.

## More cuts in nickel production

By Kenneth Gooding, Mining Correspondent

ANOTHER NICKEL producer, Western Mining Corporation of Australia, announced production cuts yesterday. However, analysts suggested the cuts would make no difference to present low prices and depressed market sentiment.

Suggestions that there was another boat carrying more than 10,000 tonnes of nickel from the Commonwealth of Independent States waiting outside Rotterdam because there was not enough equipment yet available to cut it, were also weighing heavily on the market.

Analysts estimated that WMC's moves, which include the closure of its Foster mine in Western Australia, would cut about 2,000 tonnes from its nickel output in the year to the end of June.

Mr Wiktor Bielski, analyst at Carr Kitch & Aikman, part of the Banque Indosuez Group, said London Metal Exchange nickel stocks, at nearly 64,000 tonnes, represented 10 per cent of western world annual consumption and "it needs a big increase in demand to have an impact on that. But demand is

still very weak, particularly in Japan."

There was no sign of a revival in demand for stainless steel, the biggest user of nickel, he pointed out. "And stainless steel scrap prices - a lead indicator for nickel - are not moving."

Mr Bielski suggested, however, that nickel prices should move to a level representing the average world-wide cost of production - about US\$6.171 a tonne.

Nickel closed at \$5,622.50 a tonne, up \$35, on the LME yesterday. WMC said its nickel division, which produced nearly 49,000 tonnes of metal in the year to the end of last June, was operating at a loss. It aimed to push production costs below \$5.50.

Analysts suggested WMC's announcement was mainly for the benefit of its domestic unions - contracts at its Kambalda nickel operations in Western Australia expire this month.

WMC also announced that its Chibougamau copper-gold mine in Canada would close if it was not sold by January. The company has already written off \$120m from the mine's value.

Present low nickel prices are causing expansion projects to be deferred and this could result in production shortfalls from the mid-1990s, the Metals & Minerals Research Services consultancy group, warns in its latest study. The same is true for aluminium, MMRS adds.

Tin and lead prices have been depressed for even longer and this will hold back production capacity, "leading to sharp price increases in 1995-96 (for those metals), perhaps sooner for tin."

In contrast, the relatively stronger performance of copper and zinc prices may have stimulated enough expansion to ensure that supplies keep pace with demand.

MMRS predicts that between 1982 and 1997 nickel demand will rise by 22 per cent, aluminium by 19.3 per cent, copper by 18 per cent, zinc by 17.4 per cent, lead by 14.3 per cent and tin by 12.5 per cent. This results in an aggregate rise for the LME-traded metals of 18 per cent or 3.4 per cent a year. Metals Analysis Five Year Outlook, 1992, by MMRS, 2 Henry Street, Bath, Avon BA1 1JT, England.

## Rubber talks end with little progress

By Kieran Cooke in Kuala Lumpur

A MEETING of producer and consumer members of the International Natural Rubber Organisation has ended here with little apparent progress being made on the issue of whether or not to negotiate a new international rubber agreement.

"The present International Natural Rubber Agreement expires at the end of next year though Inro rules allow for an extension of two years, subject to agreement."

A communique issued at the end of the Inro council meeting here said that a decision on the renegotiation of Inro would be made before March next year. Producer countries say they want a new agreement which will reflect changes in the rubber trading system and safeguard the livelihoods of thousands of rubber farmers.

Natural rubber prices have fallen by about a third over the past five years. Consumer countries have argued that producer countries have not put forward any real negotiating proposals and say that

until that is done then the present agreement should stay in place. The consumers also say that producers have not made attempts to improve quality in line with requested price increases.

However, there were some signs that the consumers had not closed the door completely on a new Inro. "I am rather optimistic that there will be a renegotiation of Inro," said Mr W. Bastiaanse of the Netherlands, chairman of the present Inro council. "Consumer countries have shown interest and want more information."

## WORLD COMMODITIES PRICES

### MARKET REPORT

A surge in PLATINUM prices in early Nymex trade lifted precious metal prices in London, dealers said. The Nymex January platinum contract pushed through resistance at \$365 a troy ounce, taking spot metal above resistance at \$364 before the it fell back on profit-taking. Dealers said they were looking for platinum to close above these levels to confirm an extension of the rally of the past two days into a new, higher range. The key upward target would then be \$370, above which individual Japanese investors are expected to

re-enter the market. A sharp rise in TIN prices dominated afternoon LME trading while other metals traded to stabilise after the wide movements of the past few days, dealers said. German consumer buying appeared to prompt short covering that took three-month through \$5,800, triggering buy stops. "The trouble with tin is that it is very thin and once the buy stops are satisfied we could have an equally sharp setback (today)," one trader said.

Compiled from Reuters

### London Markets

#### SPOT MARKETS

Crude oil (per barrel FOB/Jen) + or -  
Dubai \$18.40-45 -175  
Brent Blend (dated) \$18.40-45 -225  
Brent Blend (Jan) \$18.35-40 -325  
W.T.I. (1 pm est) \$18.40-45 -175

#### Oil products

OWE prompt delivery per tonne CIF + or -  
Premium Gasoline \$196-200 -4.5  
Gas Oil \$176-177 -1  
Heavy Fuel Oil \$20-21 -4  
Naptha \$175-176 +2

#### Gold

Gold (per troy oz) \$336.45 +1.8  
Silver (per troy oz) \$77.05 +1.5  
Platinum (per troy oz) \$365.00 +1.1  
Palladium (per troy oz) \$97.50 +2

#### Copper

Copper (US Producer) 101.02 -0.5  
Lead (US Producer) 33.52  
Tin (Kuala Lumpur market) 14.07  
Tin (New York) 281.56 +1  
Zinc (US Prime Western) 82.06

#### Other

Cattle (live weight) 112.48p +0.75p  
Sheep (live weight) 73.31p +4.37p  
Pigs (live weight) 64.30p -3.75p

#### London daily sugar

London daily sugar (raw) \$219.00 +1  
London daily sugar (white) \$232.40 +1.1  
Taste and Lyle export price \$251.00 -1.5

#### Barley (English malt)

Barley (English malt) \$138.02  
Maize (US No. 3 yellow) \$165.00  
Wheat (US Dark Northern) 100

#### Rubber (Jan)

Rubber (Jan) \$3.50p -0.5  
Rubber (Feb) \$3.50p -0.5  
Rubber (Mar) \$3.50p -0.5

#### Cocoa

Cocoa (Philippines) \$477.50 -10  
Palm Oil (Malaysian) \$422.50  
Cocoa (Philippines) \$477.50 -10  
Soyabean (US) \$160.00 -3  
Cotton "A" Index \$37.00  
Wool (live Super) \$27.00

A 1000 tonnes unless otherwise stated. p=premium, c=cost, f=free, w=weight, b=bulk, d=dry, m=milled, s=sugar, t=tin, u=unit, v=value, w=weight, y=year, z=zinc.

1. Jan-Mar, 2. Apr-Jun, 3. Jul-Sep, 4. Oct-Dec, 5. Jan-Mar, 6. Apr-Jun, 7. Jul-Sep, 8. Oct-Dec, 9. Jan-Mar, 10. Apr-Jun, 11. Jul-Sep, 12. Oct-Dec.

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1. Jan-Mar, 2. Apr-Jun, 3. Jul-Sep, 4. Oct-Dec, 5. Jan-Mar, 6. Apr-Jun, 7. Jul-Sep, 8. Oct-Dec, 9. Jan-Mar, 10. Apr-Jun, 11. Jul-Sep, 12. Oct-Dec.

### COCOA - London POX

Close	Previous	High/Low
Dec 704	706	701 698
Jan 726	724	725 725
Mar 740	740	739 740
May 758	758	757 759
Sep 760	761	761 764
Dec 822	822	822 822
Mar 822	822	822 821
May 837	837	836 833
Sep 859	859	858 861

Turnover: 3189 (4444) lots of 10 tonnes

ICE 100 indicator price (\$200 per tonne). Daily price for Dec 1 787.75 (789.91) 10 day average for Dec 2 781.25 (781.49)

### COFFEE - London POX

Close	Previous	High/Low
Jan 985	975	980 975
Mar 985	987	1008 993
May 997	998	1008 992
Jul 1022	1020	1015 1024
Sep 1015	1020	1021
Nov 1020	1021	1023

Turnover: 2887 (3787) lots of 5 tonnes

ICE 100 indicator price (\$200 per tonne). Daily price for Dec 1 787.75 (789.91) 10 day average for Dec 2 781.25 (781.49)

### POTATOES - London POX

Close	Previous	High/Low
Apr 63.3	63.0	63.5 62.5
May 65.5	67.9	68.5 68.0

Turnover: 42 (42) lots of 20 tonnes.

### SOYABEANS - London POX

Close	Previous	High/Low
Dec 148.00	152.00	

Turnover: 0 (250) lots of 20 tonnes.

### WHEAT - London POX

Close	Previous	High/Low
Dec 1272	1285	1283 1272
Jan 1280	1275	1285 1280
Mar 1280	1280	1285 1285
May 1120	1124	1120 1124
Jul 1310	1312	1310
Oct 1310	1322	

Turnover: 128 (288)

### GRABES - London POX

Close	Previous	High/Low
Jan 134.15	134.30	134.15 133.50
Mar 136.15	136.75	136.50 136.50
May 136.40	136.70	136.75 136.15
Jul 110.50	110.50	110.50 110.50

Turnover: 102 (234), Barley 414 (60), Turnover: lots of 100 tonnes.

### WHEAT - London POX

Close	Previous	High/Low
Jan 133.65	133.10	133.65 133.05
Mar 136.15	136.75	136.20 136.50
May 136.40	136.70	136.75 136.15
Jul 110.50	110.50	110.50 110.50

Turnover: 102 (234), Barley 414 (60), Turnover: lots of 100 tonnes.

### WHEAT - London POX

Close	Previous	High/Low
Jan 105.00	105.5	104.00

Turnover: 1 (3) lots of 3250 kg

### LONDON METAL EXCHANGE

Close	Previous	High/Low
Aluminium, 99.7% purity (\$ per tonne)		
Cash 1180-80	1187-90	1185-800
3 months 1211-12	1218-20	1222-1210
6 months 1211-12	1218-20	1222-1210
Copper, Grade A (\$ per tonne)		
Cash 1400-01	1420-21	1400-5/1400
3 months 1425-26	1448-49	1424-1424
Lead (\$ per tonne)		
Cash 225-5-26.5	225-5-26.5	225-5-26.5
3 months 225-5-26.5	225-5-26.5	225-5-26.5
Nickel (\$ per tonne)		
Cash 5545-50	5505-15	5575-78
3 months 5520-25	5500-15	5575-78
Tin (\$ per tonne)		
Cash 2605-10	2605-10	2605-10
3 months 2605-10	2605-10	2605-10
Zinc, Special High Grade (\$ per tonne)		
Cash 1055-60	1060-82	1045/1047.5
3 months 1077-78	1090-99	1090/1098
LME Closing 5/16 rate		
SPOT: 1.5485	3 months: 1.5388	6 months: 1.5280
9 months: 1.5174		

Turnover: 2887 (3787) lots of 5 tonnes

ICE 100 indicator price (\$200 per tonne). Daily price for Dec 1 787.75 (789.91) 10 day average for Dec 2 781.25 (781.49)

### SOYABEANS - London POX

Close	Previous	High/Low
Dec 148.00	152.00	

Turnover: 0 (250) lots of 20 tonnes.

### WHEAT - London POX

Close	Previous	High/Low
Jan 134.15	134.30	134.15 133.50
Mar 136.15	136.75	136.50 136.50
May 136.40	136.70	136.75 136.15
Jul 110.50	110.50	110.50 110.50

Turnover: 102 (234), Barley 414 (60), Turnover: lots of 100 tonnes.

### WHEAT - London POX

Close	Previous	High/Low
Jan 105.00	105.5	104.00

Turnover: 1 (3) lots of 3250 kg

### WHEAT - London POX

Close	Previous	High/Low
Jan 133.65	133.10	133.65 133.05
Mar 136.15	136.75	136.20 136.50
May 136.40	136.70	136.75







## FINANCIAL TIMES THURSDAY DECEMBER 3 1992

**INVESTMENT TRUSTS - Cont**

1902	96	100	104
100	97	101	105
101	98	102	106
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442	439	443	447

500 100 50 25 10 5 2 1

148	100%	-	-	-
157	11	34	21	22
164	11	-	-	-
181	75	285	744	-10.3
182	98	115	-	-
183	98	-	146.1	55.6
184	120%	2.6	-	-
187	12	1.2	84	20.5
19	10	-	-	-
192	141	1.8	201.5	27.6
198	83	-	-	-
199	44	32.2	37.2	6.5
197	63	-	130.0	12.9
199	120	-	220.9	10.9
200	120	-	27.19.3	13.4
210	82	6.2	114.0	28.3
218	285	2.6	200.3	16.5
22	95	-	-	-
23	93	-	-	-
24	17	-	24.1	18.1
27	1.8	6.1	-	34.9
28	96	1.2	133.6	23.3
30	94	92	-	-
31	94	92	-	-
32	94	92	-	-
33	94	92	-	-
34	94	92	-	-
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37	94	92	-	-
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93	94	92	-	-
94	94	92	-	-
95	94	92	-	-
96	94	92	-	-
97	94	92	-	-
98	94	92	-	-
99	94	92	-	-
100	94	92	-	-
101	94	92	-	-
102	94	92	-	-
103	94	92	-	-
104	94	92	-	-
105	94	92	-	-
106	94	92	-	-
107	94	92	-	-
108	94	92	-	-
109	94	92	-	-
110	94	92	-	-
111	94	92	-	-
112	94	92	-	-
113	130%	1.2	185.6	18.1
20%	14.6	0.1	37.2	21.8

90	70	12.6	94.2	17.0
100	73	12.5	94.1	17.0
107	75	12.5	94.1	17.0
110	76	12.5	94.1	17.0
112	77	12.5	94.1	17.0
115	77	12.5	94.1	17.0
116	78	12.5	94.1	17.0
118	78	12.5	94.1	17.0
120	79	12.5	94.1	17.0
122	80	12.5	94.1	17.0
124	81	12.5	94.1	17.0
126	82	12.5	94.1	17.0
128	83	12.5	94.1	17.0
130	84	12.5	94.1	17.0
132	85	12.5	94.1	17.0
134	86	12.5	94.1	17.0
136	87	12.5	94.1	17.0
138	88	12.5	94.1	17.0
140	89	12.5	94.1	17.0
142	90	12.5	94.1	17.0
144	91	12.5	94.1	17.0
146	92	12.5	94.1	17.0
148	93	12.5	94.1	17.0
150	94	12.5	94.1	17.0
152	95	12.5	94.1	17.0
154	96	12.5	94.1	17.0
156	97	12.5	94.1	17.0
158	98	12.5	94.1	17.0
160	99	12.5	94.1	17.0
162	100	12.5	94.1	17.0
164	101	12.5	94.1	17.0
166	102	12.5	94.1	17.0
168	103	12.5	94.1	17.0
170	104	12.5	94.1	17.0
172	105	12.5	94.1	17.0
174	106	12.5	94.1	17.0
176	107	12.5	94.1	17.0
178	108	12.5	94.1	17.0
180	109	12.5	94.1	17.0
182	110	12.5	94.1	17.0
184	111	12.5	94.1	17.0
186	112	12.5	94.1	17.0
188	113	12.5	94.1	17.0
190	114	12.5	94.1	17.0
192	115	12.5	94.1	17.0
194	116	12.5	94.1	17.0
196	117	12.5	94.1	17.0
198	118	12.5	94.1	17.0
200	119	12.5	94.1	17.0
202	120	12.5	94.1	17.0
204	121	12.5	94.1	17.0
206	122	12.5	94.1	17.0
208	123	12.5	94.1	17.0
210	124	12.5	94.1	17.0
212	125	12.5	94.1	17.0
214	126	12.5	94.1	17.0
216	127	12.5	94.1	17.0
218	128	12.5	94.1	17.0
220	129	12.5	94.1	17.0
222	130	12.5	94.1	17.0
224	131	12.5	94.1	17.0
226	132	12.5	94.1	17.0
228	133	12.5	94.1	17.0
230	134	12.5	94.1	17.0
232	135	12.5	94.1	17.0
234	136	12.5	94.1	17.0
236	137	12.5	94.1	17.0
238	138	12.5	94.1	17.0
240	139	12.5	94.1	17.0
242	140	12.5	94.1	17.0
244	141	12.5	94.1	17.0
246	142	12.5	94.1	17.0
248	143	12.5	94.1	17.0
250	144	12.5	94.1	17.0
252	145	12.5	94.1	17.0
254	146	12.5	94.1	17.0
256	147	12.5	94.1	17.0
258	148	12.5	94.1	17.0
260	149	12.5	94.1	17.0
262	150	12.5	94.1	17.0
264	151	12.5	94.1	17.0
266	152	12.5	94.1	17.0
268	153	12.5	94.1	17.0
270	154	12.5	94.1	17.0
272	155	12.5	94.1	17.0
274	156	12.5	94.1	17.0
276	157	12.5	94.1	17.0
278	158	12.5	94.1	17.0
280	159	12.5	94.1	17.0
282	160	12.5	94.1	17.0
284	161	12.5	94.1	17.0
286	162	12.5	94.1	17.0
288	163	12.5	94.1	17.0
290	164	12.5	94.1	17.0
292	165	12.5	94.1	17.0
294	166	12.5	94.1	17.0
296	167	12.5	94.1	17.0
298	168	12.5	94.1	17.0
300	169	12.5	94.1	17.0
302	170	12.5	94.1	17.0
304	171	12.5	94.1	17.0
306	172	12.5	94.1	17.0
308	173	12.5	94.1	17.0
310	174	12.5	94.1	17.0
312	175	12.5	94.1	17.0
314	176	12.5	94.1	17.0
316	177	12.5	94.1	17.0
318	178	12.5	94.1	17.0
320	179	12.5	94.1	17.0
322	180	12.5	94.1	17.0
324	181	12.5	94.1	17.0
326	182	12.5	94.1	17.0
328	183	12.5	94.1	17.0
330	184	12.5	94.1	17.0
332	185	12.5	94.1	17.0
334	186	12.5	94.1	17.0
336	187	12.5	94.1	17.0
338	188	12.5	94.1	17.0
340	189	12.5	94.1	17.0
342	190	12.5	94.1	17.0
344	191	12.5	94.1	17.0
346	192	12.5	94.1	17.0
348	193	12.5	94.1	17.0
350	194	12.5	94.1	17.0
352	195	12.5	94.1	17.0
354	196	12.5	94.1	17.0
356	197	12.5	94.1	17.0
358	198	12.5	94.1	17.0
360	199	12.5	94.1	17.0
362	200	12.5	94.1	17.0
364	201	12.5	94.1	17.0
366	202	12.5	94.1	17.0
368	203	12.5	94.1	17.0
370	204	12.5	94.1	17.0
372	205	12.5	94.1	17.0
374	206	12.5	94.1	17.0
376	207	12.5	94.1	17.0
378	208	12.5	94.1	17.0
380	209	12.5	94.1	17.0
382	210	12.5	94.1	17.0
384	211	12.5	94.1	17.0
386	212	12.5	94.1	17.0
388	213	12.5	94.1	17.0
390	214	12.5	94.1	17.0
392	215	12.5	94.1	17.0
394	216	12.5	94.1	17.0
396	217	12.5	94.1	17.0
398	218	12.5	94.1	17.0
400	219	12.5	94.1	17.0
402	220	12.5	94.1	17.0
404	221	12.5	94.1	17.0
406	222	12.5	94.1	17.0
408	223	12.5	94.1	17.0
410	224	12.5	94.1	17.0
412	225	12.5	94.1	17.0
414	226	12.5	94.1	17.0
416	227	12.5	94.1	17.0
418	228	12.5	94.1	17.0
420	229	12.5	94.1	17.0
422	230	12.5	94.1	17.0
424	231	12.5	94.1	17.0
426	232	12.5	94.1	17.0
428	233	12.5	94.1	17.0
430	234	12.5	94.1	17.0
432	235	12.5	94.1	17.0
434	236	12.5	94.1	17.0
436	237	12.5	94.1	17.0
438	238	12.5	94.1	17.0
440	239	12.5	94.1	17.0
442	240	12.5	94.1	17.0
444	241	12.5	94.1	17.0
446	242	12.5	94.1	17.0
448	243	12.5	94.1	17.0
450	244	12.5	94.1	17.0
452	245	12.5	94.1	17.0
454	246	12.5	94.1	17.0
456	247	12.5	94.1	17.0
458	248	12.5	94.1	17.0
460	249	12.5	94.1	17.0
462	250	12.5	94.1	17.0
464	251	12.5	94.1	17.0
466	252	12.5	94.1	17.0
468	253	12.5	94.1	17.0
470	254	12.5	94.1	17.0
472	255	12.5	94.1	17.0
474	256	12.5	94.1	17.0
476	257	12.5	94.1	17.0
478	258	12.5	94.1	17.0
480	259	12.5	94.1	17.0
482	260	12.5	94.1	17.0
484	261	12.5	94.1	17.0
486	262	12.5	94.1	17.0
488	263	12.5	94.1	17.0
490	264	12.5	94.1	17.0
492	265	12.5	94.1	17.0
494	266	12.5	94.1	17.0
496	267	12.5	94.1	17.0
498	268	12.5	94.1	17.0
500	269	12.5	94.1	17.0
502	270	12.5	94.1	17.0
504	271	12.5	94.1	17.0
506	272	12.5	94.1	17.0
508	273	12.5	94.1	17.0
510	274	12.5	94.1	17.0
512	275	12.5	94.1	17.0
514	276	12.5	94.1	17.0
516	277	12.5	94.1	17.0
518	278	12.5	94.1	17.0
520	279	12.5	94.1	17.0
522	280	12.5	94.1	17.0
524	281	12.5	94.1	17.0
526	282	12.5	94.1	17.0
528	283	12.5	94.1	17.0
530	284	12.5	94.1	17.0
532	285	12.5	94.1	17.0
534	286	12.5	94.1	17.0
536	287	12.5	94.1	17.0
538	288	12.5	94.1	17.0
540	289	12.5	94.1	17.0
542	290	12.5	94.1	17.0
544	291	12.5	94.1	17.0
546	292	12.5	94.1	17.0
548	293	12.5	94.1	17.0
550	294	12.5	94.1	17.0
552	295	12.5	94.1	17.0
554	296	12.5	94.1	17.0
556	297	12.5	94.1	17.0
558	298	12.5	94.1	17.0
560	299	12.5	94.1	17.0
562	300	12.5	94.1	17.0
564	301	12.5	94.1	17.0
566	302	12.5	94.1	17.0
568	303	12.5	94.1	17.0
570	304	12.5	94.1	17.0
572	305	12.5	94.1	17.0
574	306	12.5	94.1	17.0
576	307	12.5	94.1	17.0
578	308	12.5	94.1	17.0
580	309	12.5	94.1	17.0
582	310	12.5	94.1	17.0
584	311	12.5	94.1	17.0
586	312	12.5	94.1	17.0
588	313	12.5	94.1	17.0
590	314	12.5	94.1	17.0
592	315	12.5	94.1	17.0
594	316	12.5	94.1	17.0
596	317	12.5	94.1	17.0
598	318	12.5	94.1	17.0
600	319	12.5	94.1	17.0
602	320	12.5	94.1	17.0
604	321	12.5	94.1	17.0
606	322	12.5	94.1	17.0
608	323	12.5	94.1	17.0
610	324	12.5	94.1	17.0
612	325	12.5	94.1	17.0
614	326	12.5	94.1	17.0
616	327	12.5	94.1	17.0
618	328	12.5	94.1	17.0
620	329	12.5	94.1	17.0
622	330	12.5	94.1	17.0
624	331	12.5	94.1	17.0
626	332	12.5	94.1	17.0
628	333	12.5	94.1	17.0
630	334	12.5	94.1	17.0

**Geared Unit** ☒ **Weld** ☐ **90°** ☐ **92-5**

92	27	77.8	—
93	27	81	53.9
94	27	82.5	41.3
95	27	83	—
96	27	83.5	-11.9
97	27	84	—
98	27	84.5	45.0
99	27	85	33.8
100	27	85.5	—
101	27	86	41
102	27	86.5	118.5
103	27	87	88.5
104	27	87.5	—
105	27	88	84
106	27	88.5	23.6
107	27	89	—
108	27	89.5	—
109	27	90	32
110	27	90.5	31.4
111	27	91	—
112	27	91.5	1.62715
113	27	92	33
114	27	92.5	143.9
115	27	93	12.8
116	27	93.5	—
117	27	94	224.0
118	27	94.5	—
119	27	95	702.4
120	27	95.5	23.2
121	27	96	—
122	27	96.5	—
123	27	97	52.8
124	27	97.5	—
125	27	98	31
126	27	98.5	47.8
127	27	99	312.5
128	27	99.5	18.3
129	27	100	—
130	27	100.5	—
131	27	101	100.9
132	27	101.5	-4.2
133	27	102	—
134	27	102.5	—
135	27	103	8.6
136	27	103.5	-7.4
137	27	104	—
138	27	104.5	5.4
139	27	105	—
140	27	105.5	—
141	27	106	3.8
142	27	106.5	1.8
143	27	107	—
144	27	107.5	182.2
145	27	108	32.5
146	27	108.5	—
147	27	109	—
148	27	109.5	41.0
149	27	110	—
150	27	110.5	—
151	27	111	28.6
152	27	111.5	6.5
153	27	112	—
154	27	112.5	—
155	27	113	3.1
156	27	113.5	—
157	27	114	—
158	27	114.5	205.1
159	27	115	11.0

	100%	—	100%	119
Core Div Pct	100%	—	100%	119

170	6.5	30.3	30.8
171	6.5	30.3	30.8
172	6.5	30.3	30.8
173	6.5	30.3	30.8
174	6.5	30.3	30.8
175	6.5	30.3	30.8
176	6.5	30.3	30.8
177	6.5	30.3	30.8
178	6.5	30.3	30.8
179	6.5	30.3	30.8
180	6.5	30.3	30.8
181	6.5	30.3	30.8
182	6.5	30.3	30.8
183	6.5	30.3	30.8
184	6.5	30.3	30.8
185	6.5	30.3	30.8
186	6.5	30.3	30.8
187	6.5	30.3	30.8
188	6.5	30.3	30.8
189	6.5	30.3	30.8
190	6.5	30.3	30.8
191	6.5	30.3	30.8
192	6.5	30.3	30.8
193	6.5	30.3	30.8
194	6.5	30.3	30.8
195	6.5	30.3	30.8
196	6.5	30.3	30.8
197	6.5	30.3	30.8
198	6.5	30.3	30.8
199	6.5	30.3	30.8
200	6.5	30.3	30.8

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INVESTMENT TRUSTS - Cont.

Trust	Price	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994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Unit Trust Name	Unit Price	Yield %	Unit Trust Name	Unit Price	Yield %
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Whitbread Unit Trust (12000)	1.00	4.5	Whitbread Unit Trust (12000)	1.00	4.5
Whitbread Unit Trust (12000)	1.00	4.5	Whitbread Unit Trust (12000)	1.00	4.5
Whitbread Unit Trust (12000)	1.00	4.5	Whitbread Unit Trust (12000)	1.00	4.5

OTHER UK UNIT TRUSTS

<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>
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<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>	<p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p> <p><b>Whitbread Unit Trust (12000)</b> Unit Price: 1.00 Yield: 4.5%</p>
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● Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2120.

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## AMERICA

## Profit-taking keeps Dow under pressure

## Wall Street

PROFIT-TAKING continued to afflict US stock markets, with share prices easing across the board in heavy trading, writes Patrick Harverson in New York.

By 1 pm the Dow Jones Industrial Average was down 6.21 at 3,288.15, although off its lows for the morning when it had been down almost 15 points. The more broadly based Standard & Poor's 500 was also lower at the halfway stage, down 1.37 at 329.41, while the Amex composite gave up 0.94 at 392.03. The Nasdaq composite's recent record-breaking streak appeared as if it was about to end, with the index dropping 2.02 to 651.93 by 1 pm.

Turnover on the NYSE was 143m shares, and declines outnumbered rises by 962 to 688. The day's only economic statistics, a 10.3 per cent fall in October new single-family home sales, were virtually ignored by the market because of their inconsistency. Analysts and investors were reluctant to read much into the latest numbers after the commerce department announced a big upward revision in the previous month's data.

Most of the damage to prices was inflicted by profit-taking, and a fall in Caterpillar, one of the biggest constituents of the Dow average.

The market was also nervous ahead of today's all-important employment report for November, which will give the best indication yet of current economic conditions. Investors were worried that because of structural weaknesses in the labour market, recent, positive economic data might not feed through into the job figures as some had hoped.

Among individual stocks, Caterpillar dropped 1 1/4% to \$54.4 after the management said that it appeared possible that the company would report a "modest loss" in the fourth quarter. Caterpillar had previously said that it expected to post a small profit in the October-to-December period.

LA Gear plunged 1 1/4% to \$10.0 on a warning from the sports-shoe maker that it expects to report a loss from continuing operations of between \$27m and \$31m in the fourth quarter, and a loss of between \$69m and \$73m for the full year of 1992.

Consolidated Stores eased 3/4% to \$17 in busy trading after the brokerage house Merrill Lynch lowered its intermediate-term rating on the stock from "buy" to "above average" in anticipation of a technical correction in retail stocks during the first quarter.

Standard Federal Bank bucked the trend with a rise of 1 1/4% to \$23.1 following a statement from the company pre-

dicting 1992 earnings of \$3 a share, up sharply from the \$2.11 reported a year ago. On the Nasdaq market, LaserMaster Technology dropped 7 1/4% to \$2.4 after warning that it would not meet analysts' forecasts of earnings and revenues for both the second fiscal quarter and for all of 1993.

## Canada

TORONTO stocks followed Wall Street lower at midday. The TSE 300 slipped 6.3 to 3267.4 in volume of 20.8m shares valued at C\$179m. Declines narrowly exceeded advances by 210 to 207, with 227 issues unchanged. The metals and minerals sector continued its recovery, rising 35.69 or 1.3 per cent to 2,789.56.

The consumer products index tumbled 86.49 or 1.42 per cent to 5,992.54 following losses in Seagram which dropped C\$1.4 to C\$33.4 after reporting earnings per share of 47 US cents after 51 US cents.

PWA Corp fell 17 cents to 57 cents.

## SOUTH AFRICA

JOHANNESBURG ended steady to higher as a recovery in industrials helped to reverse losses in mining-related shares. Industrials gained 35 to 4,229 and the overall index added 1 to 3,304. Golds lost 2 to 863.

## EUROPE

## Bourses retreat on poor corporate news

CURRENCY worries and some negative corporate news caused bourses to retreat, writes Our Markets Staff.

PARIS fell back after its recent gains as the possibility of a devaluation in the franc began to worry the market for the first time. There were reports that the Caisse des Dépôts bought shares late in the afternoon to support the market. The CAC-40 index ended 8.96 down at 1,783.33 in turnover of FF2.6bn.

Eurotunnel was the day's most active issue, losing 95 centimes or 3.2 per cent to FF229.15 after its chairman Mr André Benard said the channel tunnel project expected to raise new capital to help plug a funding shortfall which he estimated at FF5bn.

Also on the way down was Peugeot which dropped FF7 to FF336 after negative car sales data for November. Last month Peugeot car sales in France fell 13 per cent from the same period in 1991, while sales by Renault rose 41.6 per cent.

Euro Disney dropped a further FF2.90 or 4.9 per cent to FF56.50 as the fallout from recent broker downgrades continued.

## FT-SE Actuaries Share Indices

December 2		THE EUROPEAN SERIES									
Hourly changes	Open	10.30	11.30	12.00	13.00	14.00	15.00	Close			
FT-SE Eurotrack 100	1054.09	1054.70	1055.65	1055.20	1054.12	1053.35	1051.62	1052.11			
FT-SE Eurotrack 200	1133.55	1131.08	1131.80	1133.69	1134.58	1131.11	1131.79	1130.96			
									Dec 1	Nov 30	Nov 27
FT-SE Eurotrack 100	1056.79	1057.75	1049.92	1048.05	1042.55						
FT-SE Eurotrack 200	1135.62	1132.14	1122.37	1118.56	1111.41						

Base value 1000 (20/1/1985) Highways: 100 - 1056.54; 200 - 1135.30; Lowings: 100 - 1051.54; 200 - 1129.89

FRANKFURT saw a flurry of activity in late trading, having moved in a narrow range for most of the day. The DAX index closed down 10.93 at 1,533.96 as turnover rose to DM4.8bn from DM4.5bn.

Henkel fell DM23.20 or 4 per cent to DM569.00 following a presentation on Tuesday at which the group said it expected 1992 pre-tax and net profit to be below 1991 levels.

The implementation by the US of tariffs on steel imports from Europe failed to have a negative effect on the sector, analysts said. Mr Michael Geiger at County NatWest in London said that Thyssen and Preussag have been exempted from the US measures and were therefore not directly affected. Thyssen closed down

turnover estimated at L180-200bn after L184bn.

The decline in Fiat accelerated after the share broke below the chart resistance point of L4,000. It was officially fixed L265 or 6.2 per cent lower at L3,975 and later sank to L3,905 in volume of around 7.7m shares, of which 5m were traded off-market.

Ciga, the hotel group, dropped L116 or 10.1 per cent to L1,035 on continued worries about its financial position. Fondiaria fell L1,350 or 4.6 per cent to L28,250 as the speculative fizz evaporated from the stock.

Privatisation stocks showed some resistance to the downward pressure, as Sme eased L1.35 to L5.465 and Credito Italiano gave up L37 to L2,703.

ZURICH was affected by the weaker dollar and Ciba-Geigy was again the day's most active issue with overseas selling reported. The SMI index closed 5.3 down at 1,923.9 as Ciba registered shares slipped SFr4 to SFr57.

Swiss Re went against the trend with a rise in its bearers of SFr40 to SFr2,260 while the certificates firm SFr2 to SFr466. Winterthur bearers and

registered shares rose SFr20 to SFr2,700 and SFr2,480 respectively following an announcement that it had sold its 37 per cent stake in Nordstern of Germany to UAP of France and would also take a 3 per cent stake in the latter.

STOCKHOLM continued to decline on profit-taking following last month's strong gains. The Allshare index fell 10.90 to 886.20 as turnover dropped to SKr77m from SKr793m.

Volvo B shares fell another SKr12 to SKr328 following the release earlier in the week of bad new car registration figures for November.

AMSTERDAM remained quiet with chemicals again featuring among the day's most active. The CBS Tendency index put on 0.1 to 104.4. A large trade in Heineken was noted as the stock slipped Fl2.60 to Fl170.80. Daf registered another all-time low, losing 60 cents to Fl6.20, as the company denied reports that it was to withdraw from a joint venture with Renault to build vans in the UK.

MADRID's general index lost 2.68 to 209.33 with Repsol slipping Ptas40 to Ptas245.

## ASIA PACIFIC

## Hong Kong's weakness remains in focus

## Tokyo

TOKYO closed marginally higher after fluctuating in a tight range and activity was limited to small-lot trading by public funds and investment trusts, writes Emiko Terazono in Tokyo.

The Nikkei average closed 80.64 higher at 17,393.68 after a low of 17,254.76 in the morning and a high of 17,408.83 in the afternoon. After firming at the start, following Tuesday's approval of the government's fiscal supplementary budget by the House of Representatives, early gains were erased by investment trusts' selling. However, bargain-hunting by public funds supported prices in the afternoon.

Volume fell to 200m shares from 266m as advances led declines by 479 to 468 with 176 issues unchanged. The Topix index of all first section stocks gained 4.23 to 1,508.31 and in London the ISE/FTSE index rose 0.36 to 1,056.50.

Investors said that aside from public funds and dealers' trading, genuine buying was scarce. Some investors supported small-capital shares, and the second section rose for the 10th consecutive day.

Toy makers and video game makers were strong ahead of the Christmas season. Konami rose Y230 to Y2,350 and Sega Enterprises rose Y300 to Y10,000. Bandai, the largest toy maker, gained Y170 to Y3,750, while Takara rose Y130 to Y1,330.

Semiconductor equipment makers rose on prospects of a recovery in the US chip industry. Kyocera, the semiconductor ceramic package maker, rose Y70 to Y4,240. Toshiba, which has strong business ties with US companies, rose Y2 to Y622. Other high-technology issues fell on profit-taking, with NEC down Y7 to Y688 on earnings worries, and Matsushita Electric Industrial retreating Y10 to Y1,140.

Speculative favourites rose on short-term buying by dealers, with Nippon Carbon up Y33 to Y513 and Clarion rising Y30 to Y472.

On the over-the-counter market, TSD, the computer software maker, lost Y47 to Y573 after announcing that it expected to see losses on the pre-tax and after-tax level for the September year-end.

In Osaka, the OSE average gained 0.21 to 18,773.28 in volume of 30.2m shares. Nintendo, the video game maker, gained Y500 to Y11,000 on reports of an upward earnings revision by a leading Japanese broker.

## Roundup

A further fall in Hong Kong depressed many of the region's markets yesterday. HONG KONG fell nearly 2 per cent at the opening following Governor Chris Patten's statement that he intended to press ahead with democratic reforms. But bargain-hunting

helped to lift the Hang Seng index off the day's low of 5,391.71 to close 91.23 down at 5,410.48 in turnover of HK\$2.4bn.

Some analysts fear that the uncertainty could last until next February when the draft reform proposals are presented to the legislative council.

Mr Michael Franklin at Kim Eng Securities said it was likely that international fund managers were seeking to lock in their profits before the year-end and would attempt to buy back in early 1993.

AUSTRALIA drifted lower on worries about the domestic economy and the weak local currency. The All-Ordinaries index finished 5.8 lower at 1,438.5 in turnover of A\$161m. On Tuesday the Australian dollar fell to a new five-year low against the US currency.

National Australia shed 10 cents to A\$7.15 following an analysts' presentation. Commonwealth Bank rose 2 cents to A\$6.00.

SINGAPORE eased with profit-taking in some blue chips. The Straits Times Industrial index fell 4.18 to 1,459.89 with 111.8m shares traded.

Among active issues, DBS foreign shares fell 30 cents to S\$13.30. SIA foreign 20 cents to S\$16.30 and Sembawang Shipyard 20 cents to S\$8.10.

KUALA LUMPUR rebounded on bargain-hunting and speculative buying and the composite index gained 4.25 to 641.51 with 188.5m shares traded.

SEOUL weakened after the government decided not to cut the rediscount rate. The composite index shed 9.73 to 650.20 in turnover of Won\$22.9bn.

TAIWAN fell in spite of a

rise in the financial and paper sectors. The weighted index lost 11.06 to 3,635.70 in turnover of T\$4.3bn after T\$6.34bn.

MANILA rose on news that drilling for oil off the island of Palawan would go ahead. The composite index advanced 6.92 to 1,273.40 in turnover of 244.4m pesos.

NEW ZEALAND saw thin trading as the NZSE-40 index eased 13.78 to 1,525.55 in turnover of NZ\$22m. Telecom and Fletcher Challenge led the market down with falls of 4 cents each to NZ\$2.53 and NZ\$2.25 respectively.

BANGKOK extended its gains with a good performance in the banking sector. The SET index rose 13.42 or 1.5 per cent to 874.75 in turnover of some B\$4.74bn. Thai Farmers Bank, the most active stock, jumped B\$40 to B\$720.

## Santiago weighed down by overheated economy

Traders fear another rate rise, says Leslie Crawford

Santiago's stock exchange is suffering from a bout of year-end blues, due to fears of another rise in interest rates to cool down the country's overheated economy.

The latest projections show the Chilean economy growing by over 9 per cent in 1992. Inflation has also quickened in November and may overshoot the government's target of 13 per cent for the year.

So in spite of rises in interest rates in August and October, traders believe the central bank will try to dampen Chile's frenzied economic activity with a further adjustment in base rates before the end of the year.

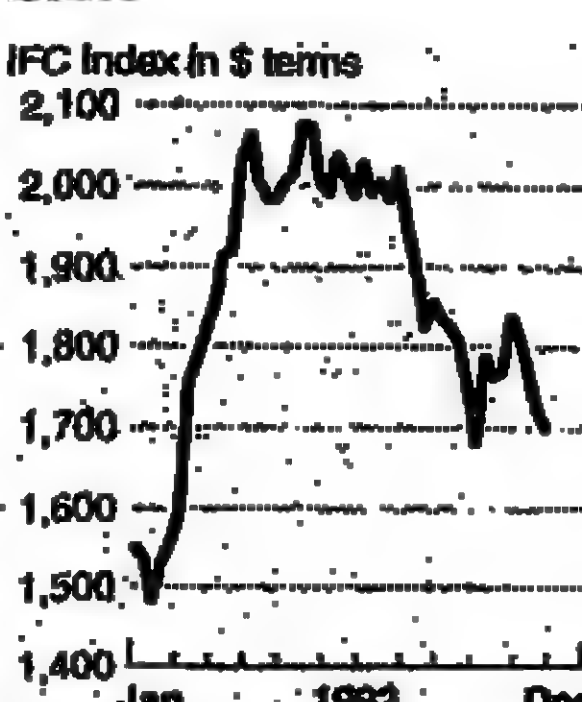
High yields on government paper have siphoned off funds from the *bolso*. The Ipsa index of the 40 most traded shares fell by 7 per cent in November, continuing a downward trend that began in August.

Compared to previous years, the performance of share prices has been modest this year. The Ipsa has risen by 17.7 per cent in nominal peso terms since January, or by 10.4 per cent in dollar terms, according to the International Finance Corporation. By contrast, Ipsa shares more than doubled their value last year.

"We do not see much year-end enthusiasm in the stock market given low third-quarter corporate earnings and high risk-free government yields," say investment analysts at Celin, the managers of Solomon Brothers' Chile Fund.

Other factors are also undermining confidence. The government has announced a major reform of the capital

## Chile



average \$11m in the past year. In addition, Chile's electricity companies, the most actively traded stocks, have taken a pounding following a very public row over electricity tariffs. These come under review every four years, and the government has ordered tariff cuts for the 1993-97 period. By protesting too loudly electricity companies appear to have triggered a run on their shares.

Enersis, the holding group which owns Chilectra, the biggest power distribution company in Chile, saw its shares plunge by 9 per cent in November, for a 24 per cent drop since their peak in June. Not even

the company's healthy third-quarter earnings, up 34 per cent compared with the first nine months of 1991, have been able to revive interest in the shares.

The offloading of utility shares has also affected Endesa, the biggest power generator in Chile, even though the tariff cuts apply only to the electricity distribution companies. Endesa shares, which account for 30 per cent of daily trading volume, were down 6.3 per cent last month. They have lost 26.8 per cent of their value since June, even though profits were up by 22 per cent in the first nine months of the year. Traders, however, are expecting a rally as Endesa was recently awarded an "investment grade" rating by Standard & Poor's, making it the only private-sector company in Latin America to attain international standards of creditworthiness.

One foreign investment fund manager believes that the market has overreacted to what is essentially good news. While investment and exports continue to grow at almost twice the rate of the economy, he thinks that fears of overheating are unwarranted.

Most traders believe the market will bounce back early next year, once the new legislation affecting Chile's capital markets is in place. They expect the Ipsa index to rise by 10 per cent in real terms between now and March, given the underlying strength of the economy and the growth potential of Chile's leading companies.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	TUESDAY DECEMBER 1 1992										MONDAY NOVEMBER 30 1992										DOLLAR INDEX							
	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day
Figures in parentheses show number of stocks																												
Australia (68)	114.87	+0.2	110.84	90.33	94.36	111.70	-0.4	4.34	115.11	112.76	90.52	95.96	112.20	153.68	108.18	151.67												
Austria (19)	138.78	+0.1	133.89	109.11	113.98	114.70	-0.3	2.46	139.95	135.83	109.08	114.87	113.08	186.70	137.66	186.59												
Belgium (32)	134.88	+0.2	130.14	106.05	110.79	108.10	+0.0	5.85	134.61	131.86	105.93	111.52	109.05	152.27	134.08	152.64												
Canada (113)	112.65	-0.5	106.89	83.57	92.53	104.90	-0.5	3.23	113.20	110.80	84.68	93.78	105.42	142.12	111.36	137.52												
Denmark (34)	188.58	+0.7	182.93	149.08	155.73	158.77	+0.5	1.72	188.25	184.30	148.06	98.95	157.97	273.94	181.70	252.64												
Finland (15)	72.58	+0.6	70.00	57.05	58.80	77.80	+0.2	1.81	72.09	70.62	56.71	58.72	77.61	89.80	52.64	76.01												
France (96)	148.50	+1.4	141.38	115.20	120.33	123.87	+1.0	3.64	144.42	141.47	113.60	119.63	122.61	168.75	136.93	138.19												
Germany (64)	106.90	+0.9	103.15	84.07	87.81	87.81	+0.0	2.59	105.95	103.90	83.37	87.78	87.78	129.69	102.51	108.99												
Hong Kong (63)	223.13	+0.4	215.30	174.35	183.29	222.15	-5.3	4.05	237.97	211.15	189.63	136.50	234.53	362.28	176.36	189.48												
Ireland (16)	137.80	+1.1	132.97	108.36	113.20	116.59	+0.2	4.70	136.34	133.56	104.25	112.95	116.32	173.71	122.98	153.56												
Italy (77)	56.92	+0.3	84.05	44.05	46.01	58.61	+0.8	3.54	55.67	54.73	43.95	46.28	58.14	80.86	47.47	71.63												
Japan (472)	104.98	-1.7	101.27	82.53	86.22	82.53	-1.7	1.02	105.72	104.22	87.95	98.43	93.95	140.95	87.27	130.58												
Malaysia (69)	271.97	+0.8	262.42	215.45	183.29	222.15	-5.3	2.80	274.11	258.51	214.6	227.08	267.86	382.42	312.49	302.06												
Mexico (18)	1592.84	-0.7	1536.96	1252.54	1308.42	1422.25	-0.8	1.11	1604.66	1571.88	1263.33	1339.38	1465.11	1788.94	1330.00													
Netherlands (25)	152.43	+1.0	147.08	118.86	125.22	123.77	+0.2	4.60	150.92	147.84	118.73	125.04	123.47	169.70	147													
New Zealand (13)	42.98	-0.4	41.18	33.56	35.08	42.47	-0.7	5.73	42.87	41.99	33.3	35.1	41.67	57														
Norway (22)	145.83	+3.2	140.52	114.54	116.83	123.43	+2.9	1.89	141.12	138.24	111.02	115.92	124.84	192.08	126.05	157.07												
Singapore (38)	205.93	+0.4	198.71	161.94	169.16	156.26	-0.5	2.12	206.72	202.40	162.42	171.25	159.39	229.63	179.65	205.46												
South Africa (61)	143.67	+1.4	136.82	113.17	117.37	125.27	+0.7	3.31	145.87	142.98	114.75	130.84	154.22	263.60	134.1	265.14												
Spain (46)	115.48	-0.2	111.42	90.31	94.86	100.17	-1.1	6.00	116.34	113.96	91.82	96.86	101.77	161.72	107.16	161.72												
Sweden (31)	167.18	-0.2	161.32	131.47	137.33	168.23	-0.7	2.33	167.56	164.12	131.81	138.82	169.48	200.28	169.47	200.28												
Switzerland (60)	108.45	+1.8	104.64	85.28	89.09	95.10	+0.2	2.25	109.62	104.34	83.80	88.25	94.89	127.37	95.95	127.37												
United Kingdom (227)	170.41	+2.0	164.43	133.99	138.87	164.43	+0.5	4.65	170.41	165.93	133.73	132.35	165.93	200.07	161.86	171.28												
USA (322)	115.48	-0.2	108.85	80.31	94.86	100.17	-1.1	2.89	116.34	113.96	91.82	96.86	101.77	161.72	107.16	161.72												
Africa (779)	135.61	+1.4	130.85	106.84	111.40	121.83	+0.4	3.86	133.76	131.03	103.23	110.22	121.37	156.88	131.31	156.88												
Europe (102)	150.79	+1.0	145.48	118.54	123.83	133.87	+0.2	2.11	150.92	147.84	118.73	125.04	123.47	169.70	147													
Pacific Basin (713)	106.31	-1.8	105.48	85.98	89.39	87.75	-1.8	3.18	111.28	108.99	84.53	92.18	109.35	141.97	93.70	132.06												
Asia - Pacific (1452)	119.95	-0.3	115.74	94.32	98.53	101.44	-0.8	2.51	120.36	117.90	94.68	99.71	102.27	145.21	113.80	134.05												
North America (638)	172.14	-0.2	168.10	135.38	141.42	171.24	-0.2	3.91	172.42	168.90	135.65	142.67	171.52	172.42	158.70	154.10												
South America (10)	116.92	+0.1	113.76	100.92	101.16	109.39	+0.3	2.68	116.92	113.76	100.92	101.16	109.39	116.92	113.76	100.92												
Pacific Ex. Japan (224)	159.08	-2.4	146.74	119.61	124.94	140.53	-2.4	3.78	155.94	153.66	122.62	122.12	144.05	175.31	101	175.31												
World Ex. US (1683)	120.87	+0.4	118.63	96.08	99.29	103.43	-0.8	2.53	121.32	118.84	96.24	101.69	122.25	146.91	115.99	136.03												
World Ex. Japan (1978)	356.52	-0.5	330.78	108.57	113.33	121.85	-0.6	1.86	336.25	333.47	108.29	111.99	122.72	156.86	127.21	139.03												
World Ex. So. Afr. (2149)	198.62	+0.3	193.76	109.92	110.16	129.39	+0.3	2.68	198.62	195.95	110.16	112.95	115.16	130.04	141.01	130.04												
World Ex. Japan (1733)	157.58	+0.2	152.05	126.93	129.47	150.82	-0.1	3.26	157.58	154.04	123.32	123.32	130.10	150.87	149.01	151.93												
The World Index (2005)	158.54	-0.3	153.68	105.55	115.81	125.97	-0.5	2.68	158.54	154.04	123.32	123.32	130.10	150.87	149.01	151.93												



December 3 1992

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## FINANCIAL TIMES SURVEY

# MANAGEMENT BUY-OUTS

### SECTION III

Thursday December 3 1992

Recession has seen the buy-out gain widespread acceptance as a way of restructuring businesses. But times are tougher for backers as deals fall in value and more effort is required to put them together. Charles Batchelor reports

## Proving their worth

MANAGEMENT buy-outs have had a good recession. They have proved their worth as a means of restructuring companies and almost redeemed the mistakes of the 1988-89 boom. Nothing, it appears, succeeds quite like a buy-out in motivating managers and in revitalising tired businesses.

Few corporate boards will now reject the idea of selling a non-core or under-performing business to management as an alternative to a sale to a corporate buyer. ICI, BP and Hanson have all disposed of parts of their operations by means of a buy-out in recent months.

Some idea of the scale of activity in the UK can be gained from the fact that there were more buy-outs in 1991 than acquisitions of independent companies. Total buy-out activity over the past decade has amounted to nearly 4,200 deals worth more than £26bn at current prices, according to Nottingham University's Centre for Management Buy-Out Research.

Buy-out transactions have declined throughout Europe over the past two years from the feverish levels of 1988-89. But they still accounted for 55 per cent of all UK venture capital investments by value last year and for 35 per cent of European venture capital spending.

That is the good news. But

life has grown tougher for the organisations which arrange and finance buy-outs. They are having to devote more effort to putting deals together and, with less debt finance available to gear up the equity, face the prospect of lower returns in the next few years.

The size of deals and hence the return for the effort involved has also fallen. The largest buy-out completed by the end of November was the £140m purchase of Gaymer Group Europe - owner of the Olde English cider, Babychem and Sanatogen Tonic Wine brands - from Allied-Lyons. Compare this with the late 1980s when every year set a new record: MFI valued at £718m in 1987, Reedpack worth £805m in 1988 and Gateway at £2.37bn in 1989.

The number of large buy-outs - those worth more than £50m - is closely linked to the economic cycle because the bigger deals are more dependent on the willingness of the banks to provide debt finance, according to a recent study by London Business School. But investment in smaller transactions - valued at less than £25m - remains fairly constant throughout the economic cycle because these deals usually have lower levels of gearing, the researchers found.

Overall, 1992 seems set to mark a slight recovery in the



UK buy-out sector after two years of decline. Forty four large deals (each valued at £10m or more) worth a total of £1.47bn were completed in the first nine months of the year. This compares with the same number of deals, although with a total value of £1.88bn, completed in the whole of 1991, according to accountants KPMG Peat Marwick.

Buy-out fund managers believe there will be a sharp increase in the number of deals completed in the final three months of the year. "There are more signs of life in the market," says Mr Hugh Mumford, managing director of Electra.

"Financially stretched companies which deferred a decision to dispose of parts of their business now realise they have to sell." Several vendors are under pressure to complete disposals by the end of the year so that they can include the sale price in the 1992 accounts, says

another buy-out specialist.

This pressure to complete a sale has meant that many vendors have become more realistic about the price they can expect. Some deal-makers remain concerned about price levels however. This is one reason Morgan Grenfell Development Capital has not completed a large deal in the past year, according to Mr Robert Smith, chief executive.

Deal activity is only one measure of the buy-out sector's success, however. Realisations are just as crucial to its health. MFI, seen by many as bell-wether of the buy-out industry, finally achieved a public listing, at a valuation of £668m, in July but in general "exit" options have narrowed.

After a brief opening of the listing "window" in the immediate aftermath of the Conservative's election victory in April the stock market has not looked kindly on flotations.

The Unlisted Securities Market and even the small end of the main stock market lack liquidity and are less attractive to company boards, while corporate purchasers have had less time to look for acquisitions as they wrestle with their own problems.

"We have been hanging on longer to our buy-out investments than in boom times," says Mr Stephen Curran, chief executive of Candover Investments. "Returns will come down over the next few years," forecasts Mr Mumford. "Big returns were made from leverage in the 1980s. To achieve results in future the venture capital community will have to become more creative."

A few years ago venture capitalists saw a profitable market in taking public companies private again once the gloss of a public listing wore off. But these deals have proved difficult. The institutions are reluctant to see the diversity of their listed company portfolios reduced and frequently suspect managers of misusing inside information on the business.

The banks are often reluctant to finance such deals because of problems in securing their lending and it is frequently difficult to suggest a plausible "exit" strategy when the buy-out is removing the most obvious exit of all. After six "going private" deals in 1991, only one deal - of Continuous Stationery, the Prontaprint franchise group - has been done this year.

In October Mr Alan Sugar, founder of Amstrad, the consumer electronics group, announced plans to take his company private but ran into criticism over the price he was offering for the shares and the amount of information provided on his future plans for the company. Buy-out fund managers believe the number

of companies going private will be restricted to businesses still dominated by a strong founding entrepreneur but, as Amstrad illustrates, even these deals are not trouble-free.

Public-to-private deals may be difficult to do but the privatisation of public sector organisations continues apace. Local councils, bus operators and port authorities have been selling parts of their operations while the proposed privatisation of British Coal opens up further opportunities.

British venture groups have played a leading role in spreading equity financing techniques throughout Europe but some British groups are now more cautious about doing deals there. Eastern Europe appears to offer great opportunities as state industries are privatised.

However UK groups are wary. "A huge amount of work needs to be done on the physical, legal and accounting infrastructure in eastern Europe," says Mr Michael Smith, managing director of Citicorp Venture Capital. In spite of this Citicorp has backed deals in Hungary and has been more active than most in financing buy-outs in continental Europe.

Throughout continental Europe, buy-out activity declined by an estimated 15 per cent in 1991 with just 354 deals being completed, according to the Centre for Management Buy-Out Research. The total value of deals rose slightly however, from £4bn to £4.2bn.

The buy-out has gained widespread acceptance as a means of restructuring overstretched businesses and inefficient national economies. Even if nothing else emerges UK funds will have a job to do arranging more sensible financial structures for the over-borrowed buy-outs of the late 1980s.

But their main challenge will be to continue to give investors the high levels of return they have come to expect. Many UK pension funds and other institutions are reviewing their commitment to unquoted investments as an asset class. The buy-out specialists will have their work cut out to meet their expectations.

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## MANAGEMENT BUY-OUTS 2

Charles Batchelor unravels the tangled web of industry jargon

## Of collars and cylinders

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## Estimate of total UK MBOs October 1 1992

	No.	Value £m	Average size £m
1980	100	40	0.4
1981	180	130	0.7
1982	200	550	2.8
1983	220	240	1.1
1984	200	270	1.4
1985	250	1,070	4.3
1986	300	1,300	4.3
1987	350	3,230	9.2
1988	400	5,070	12.7
1989	500	6,490	13
1990	550	2,630	5.1
1991	500	2,800	5.2
1992 to date	390	1,990	5.1
Total	4,140	25,810	6.2

Source: KPMG Corporate Finance

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■ The larger management buy-outs 1988 to 1992 ..... Page 12

Note: figures are cumulative since 1981

Source: KPMG Corporate Finance

EVERY trade or profession has its technical terminology or jargon and the buy-out sector is no exception. Buy-outs in Britain have traditionally been handled by venture capitalists so some of the terms derive from venture and development capital areas.

Other expressions have come from the world of corporate finance. But whatever their provenance, they can be confusing to buy-out teams, many of which have no previous experience in this field.

**Bimbo**  
A somewhat controversial term coined by 3i to describe a deal involving both existing and outside managers: a buy-in/management buy-out or bimbo. About half of all deals take this form.

**Bought deal**  
This is when a deal maker provides all of the finance needed for a buy-out deal and then sells on or syndicates part of the funding to other investors later. Carried out by the larger providers of finance when speed or confidentiality are particularly important for the deal to succeed.

**Bridge financing**  
Short-term funding provided when a company is about to raise a new round of equity or is about to go public.

**Business plan**  
The document put together by managers to justify their application for finance. Should contain summaries of past and projected profit and loss accounts, balance sheets and cash flows.

It should also include details of products and services, markets, future strategy and profiles of the managers. A warning, however: don't get too carried away. Most financiers will not go beyond the two-page executive summary.

**Caps, collars and cylinders**  
Clauses in buy-out deals which limit the extent to which the interest rate charged on borrowed funds can rise or fall. A safeguard against borrowing costs rising to the point where they endanger the company.

Such agreements usually have a limited life of one or two years. The longer the period of cover the more expensive the collar or cap.

**Carried interest**  
A stake taken in the investee company by the venture capitalist or buy-out fund managers. Can be in the form of options.

**Deal flow**  
The rate at which investment propositions come to the deal-maker or financier. Many claim to select only one deal in 50, although deal flow numbers are treated by some as a sort of viridity symbol.

**Development Capital**  
Later stage finance for more established companies which are profitable or nearly profitable. Less risky generally than early stage finance.

**Due diligence**  
Detailed analysis and appraisal of the background of the entrepreneur and his business plan.

**Earn-out**  
Either a formula for relating the final purchase price of a company to actual future earnings or a means of encouraging management to perform by payment on the basis of future performance (see also Hatchet).

**Employee buy-out**  
A deal involving not just the top management but also all or a large number of the more junior employees of the organisation. The difficulty of involving large numbers of employees without disclosing a deal prematurely has meant that relatively few of these deals have been done.

Some managers get round this by staging a buy-out and then involving other staff later at a later stage.

**Employee share ownership plan (ESOP)**  
A trust which is established to acquire shares in a company for subsequent allocation to employees over a number of years.

**Exit**  
The point at which the financier sells his holding in the

buy-out company either through a trade sale to a larger company, by the management buying out the other investors to assume complete control, or by a stock market flotation. It is essential the managers and their financial backers agree from the outset on the exit strategy.

**Gearing or leverage**  
The ratio of debt to equity in a company's capital structure. Intermediate forms of capital, such as redeemable preference shares and convertible loans, can complicate the calculations and mean a variety of ratios may be applied to the same company.

**Hands-on/hands-off**  
The degree to which an investor in a buy-out becomes involved in its management. A hands-on investor would normally nominate a non-executive director to the board and might commit some of its other executives to help out if the company ran into difficulties. Hands-off investors would have little or no active involvement in the company.

**Internal Rate of Return (IRR)**  
Different investors work this out in different ways but the term generally refers to annual compound rate of return to the investor over a given period of time.

Returns normally include dividend distributions and profits from either disposals or a fair valuation of the buy-out company.

**Junior debt**  
Loans which rank after secured or senior debt for repayment in the event of a default.

**Junk bonds**  
High yielding, unsecured debt used in US buy-outs. Since the debt is in the form of a bond certificate, it can be bought and sold more easily than the mezzanine loans (qv) used to finance UK buy-outs.

**Lead investor**  
Venture capitalist or other financier with the largest share in the syndicated investment.

He or she usually initiates the deal and then takes a hands-on role on behalf of the other partners.

**Lemons and plums**  
Bad deals and good. Bad investments usually go wrong before the good ones produce a profit: the lemons ripen before the plums.

**Leveraged buy-out**  
Similar to a management buy-out, though usually applied to US deals where the transaction will have been initiated by a financial group rather than the management. The name refers to the high level of borrowing which the company takes on, using the assets being purchased as leverage.

When British buy-outs seemed to be going the way of their US counterparts, with large, highly speculative deals being put together by City financiers, the term started to be applied to UK buy-outs. Nowadays the idea of high levels of leverage is a distant memory.

**Living dead**  
Companies which are just about trading profitably but which are unlikely to do really well.

A slightly dated term used about investments the deal-makers prefer to forget.

**Lock-out agreement**  
An agreement to give the buy-out team time to negotiate the purchase of their company free of pressure from other bidders.

**Management buy-in**  
An offshoot of the management buy-out industry. The purchase of a business by one or more outside managers with the help of a group of financial backers.

The term was applied indiscriminately in the late 1980s to any bid which involved a well-known City figure on the grounds that a buy-in sounded more constructive than the hostile takeover that it usually was.

Buy-ins are now seen as being considerably riskier than buy-outs because they involve an outside management team which does not know the company as well.

Many deals are neither pure buy-ins nor buy-outs but bimbo (qv).

**Management buy-out**  
The purchase of a business by its existing management with the help of a group of financial backers.

The managers put up a relatively small amount of the total finance but usually gain a

## Leading debt arrangers

	Total number	Total value of debt £m	Average value of debt £m	Number of investments
Bank of Scotland	64	1,158	18	112
Nat West/County NatWest	61	1,519	25	85
Barclays/BZW	42	817	19	66
Midland/Samuel Montagu	29	555	19	43
Charterhouse/RBS	21	851	41	39
Bankers Trust	19	1,417	75	20
Standard Chartered/CWB	18	1,001	56	30
SecPac	9	247	27	14
Citibank/Citicorp	8	820	78	13
Lloyds	7	81	12	23
Kleinwort Benson	6	144	24	15
Warburg	5	2,039	408	9
Chemical	4	1,430	358	6
Continental	4	87	22	11
Scandinavian	4	58	15	4
3i	4	24	6	25
Manufacturers Hanover	3	50	17	3
Credit Agricole	3	47	16	15
CIBC	3	28	9	15
NM Rothschild	3	52	17	6
Den norske	3	21	7	7
YBS	3	19	6	4
Toronto-Dominion	2	37	18	11
Industrial Bank of Japan	1	68	68	14
Westpac	1	35	35	11
Creditanstalt	1	7	7	12
Bank of Nova Scotia	1	7	7	8
Long Term Credit Bank of Japan	1	7	7	17
Allied Irish	1	7	7	11
Dai-ichi Kangyo	1	7	7	10
Nippon Credit	1	7	7	10
Fuji	1	7	7	8
Sunamio	1	7	7	8
Others	50	93	1.9	33
None/not known (duplication)	20	145	7.3	33

Qualification: in £10 million plus deals, 3 deals arranged or 5 investments made

Source: KPMG Corporate Finance

disproportionately large share of the equity. Buy-outs are funded largely by loans secured on the assets of the company itself.

**Mezzanine finance**  
This refers to loans, that are usually unsecured, which rank after secured or senior debt but before equity in the event of the company failing.

To compensate for the greater risk, they usually carry interest 1 to 3 percentage points above secured loans and often carry an equity "kicker" to give the lender a stake in the equity.

**Newco**  
The management buy-out is usually carried out through a newly created company which is normally referred to as a newco.

**Preferred ordinary shares**  
This refers to the ordinary shares which are taken up by the outside investors in a buy-out.

These shares rank ahead of the plain ordinary shares which are owned by the management in terms of dividends

and the pay-out in the event of a winding-up.

**Hatchet**  
An incentive arrangement whereby the managers get a higher share of the equity if the venture performs well. Sometimes managers forfeit shares if they do particularly badly (see also Earn-out).

**Second round financing**  
Increasingly needed to help buy-outs which have run short of funds. Can also be given to businesses which have done well and are able to raise new money for further investments.

**Senior debt**  
Secured debt which ranks first in terms of repayments in the event of a default (see also junior debt).

**Slippage**  
Happens when the buy-out company starts to eat up more cash than expected because development costs exceed budget or sales grow too slowly.

**Syndicated investment**  
An investment which is too large and risky to be handled

by one investor and which needs to be shared among several partners.

Fewer deals are syndicated in present market conditions, while syndicates also involve fewer participants.

This is partly because the smaller deals do not require so many players. However it also means that if trouble arises, fewer people have to be consulted in order to sort out the mess.

**Vendor finance**  
Finance provided by the vendor in the form of either a deferred payment or a retained minority stake in the bought-out company, usually in the form of loan notes.

It allows the vendor to share in the profits of the company if it does well and can also be used to boost the sale price, thereby impressing the vendor's shareholders.

**Venture capitalist**  
This is the deal-maker who provides the funds and the advice for entrepreneurs who are either starting a business from scratch or staging a management buy-out.

## While others have been in and out of MBIs and MBOs, we've always been in.

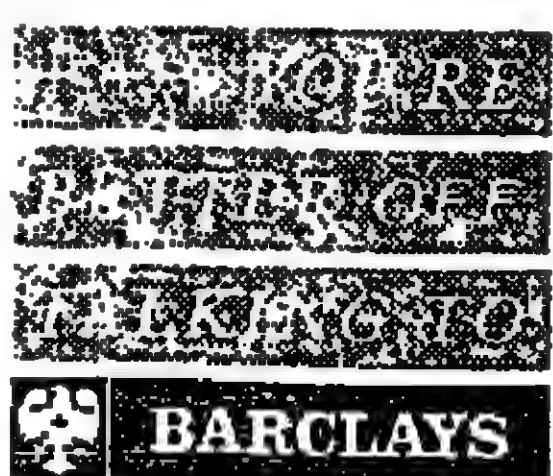
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## MANAGEMENT BUY-OUTS 3

## THE DEAL LEADERS

## Industry participants begin to thin out

BUY-OUTS have proved a profitable niche for the British venture capital industry - so profitable, in fact, that while interest in start-ups and other early-stage deals has waned, many venture capitalists have made buy-outs the focus of their activities.

A growing number of the smaller venture capital funds which backed early stage ventures have ceased making new investments.

So far, the attrition visible elsewhere in the industry has yet to show itself among the buy-out funds but, many participants expect, it will not be a long time coming. "The industry is rationalising itself and polarising around a dozen or so players," says Mr Ian Forrest, managing director of Montagu Private Equity (formerly Midland Montagu Ventures).

The reasons for this thinning out of the industry are not hard to find. Poorly performing funds will be unable to raise new finance from outside investors or, if they are "captive" institutions owned by a larger financial services group, will be unable to persuade head office that they deserve more money.

The decision earlier this year by Hill Samuel, the merchant banking part of the TSB group, to put its development capital arm up for sale, showed that even the captive organisations are not as secure as was previously assumed.

Hill Samuel's move reflected a decision to concentrate on activities which provided a quicker pay-off than development capital.

The increased vulnerability which the captive funds feel has persuaded their managers that they must be more active in promoting their activities within their own organisations.

"We make sure that we publicise internally any cross-referral business we create," says one.

So which are the most active buy-out funds and those most likely to form the slimmed-down core of the industry in a few years' time?

I THINK THE BUY-OUT TEAM ARE TAKING THEMSELVES JUST A LITTLE BIT TOO SERIOUSLY



Any list of the leading players active in the UK market would include Candover, Charterhouse Development Capital, CINVen, Morgan Grenfell, 3i, Philrow Ventures, Schroder Ventures, County NatWest, Montagu Private Equity and Electra.

A shorter list of buy-out teams active in continental Europe would also include Candover, 3i and Schroders, but with the addition of other organisations such as Citicorp Venture Capital.

Membership of either of these lists denotes a serious commitment to the buy-out field but does not necessarily mean that all the funds have been active recently. Morgan Grenfell Development Capital has not made a large buy-out investment for nearly a year because it has not seen a sufficiently attractive deal, says Mr Robert Smith, chief executive.

3i continues to head the KPMG Peat Marwick deals table, completing 15 new deals in the year to the end of September 1992, but has not been noticeable bidding for the largest deals recently, several other buy-out specialists report. This may reflect a decision by 3i to close what used to be known as its City office and to put more effort into helping its area offices to do larger deals.

Other leading funds include Midland Montagu Ventures, which has completed seven deals in the past year, Schroder Ventures with six deals, and CINVen, which manages pension funds for the British Coal, British Rail and Barclays Bank, with four deals.

One factor which is likely to lead a further concentration of the buy-out industry is the desire for many players to take a deal completely on their own books or to limit the size of the syndicates they form.

The large, unwieldy syndicates put together to finance deals in the late 1980s were not well suited to dealing with the problems experienced by their portfolio companies. So deal leaders are now only willing to work together with small teams of like-minded funds they feel they can trust.

Syndicates - such as those which backed the buy-out of Mecca Leisure in 1985 involving 23 members, and that of Mallinson Denny in the same year with 19 members - are unlikely to be repeated.

The average number of investors in a £100m-£250m in 1986 was 16, Electra has calculated. By 1991 it had fallen to four members. Deals of between £10m and £25m involved on average six investors in 1986 but only two in 1991. "People want to take bigger stakes in companies because they want to be closer to them," says Mr Hugh Mumford, Electra managing director. "Investors don't want to be passive."

"The shortage of larger, high quality investment opportunities has led to the originators of deals hanging on to what

## Deal Leaders

	Total No	Total value of deal £m	Avg value of deal £m	No. of investments	Address	Phone number
3i	50	1,456	29	56	21 Watlington Road, London, SE1 8XP	071-928 3131
Candover Investments	26	1,357	52	38	28 Old Bailey, London, EC4M 7LN	071-469 9848
Charterhouse DC	22	855	39	28	25 Walling Street, London EC4M 9PU	071-248 4000
Citicorp	21	833	39	28	25 Bank House, 25 Bank Street, London, WC2E 1HS	071-438 1488
Schroder Ventures	19	738	39	27	20 Southampton Street, London, WC2E 7QJ	071-632 1000
County NatWest Ventures	18	591	33	73	285 Brompton Road, London, EC8M 3UP	071-375 5000
CINVen	17	490	29	84	Robert House, Grosvenor Place, London, W1A 3AD	071-245 6911
Midland Samuel Montagu	17	378	22	97	10 Lower Thames Street, London, EC3R 6AE	071-260 9911
Bankers Trust	14	823	59	10	Apex Street, Broadgate, London, EC2A 4HS	071-982 2500
Philrow Ventures	14	388	28	2	1100 Court, 14 Finsbury Square, London, EC2A 4PD	071-628 5000
Graffville	10	145	15	10	444 Essex, 77 Market Street, London, E1 6AF	071-488 1212
Electra	10	122	12	5	28 Kingsway, London, WC2E 8BT	071-831 9464
Kleinwort Benson DC	10	122	12	5	28 Kingsway, London, WC2E 8BT	071-956 0600
Barclays DC/BZW	10	238	24	5	28 Kingsway, London, WC2E 8BT	071-407 2389
Lloyds DC	7	238	34	40	28 Kingsway, London, WC2E 8BT	071-600 3226
Murray Johnstone	7	238	34	40	28 Kingsway, London, WC2E 8BT	041-225 3131
Prudential VM	7	238	34	40	28 Kingsway, London, WC2E 8BT	071-831 7747
Morgan Grenfell DC	6	1,025	171	12	28 Kingsway, London, WC2E 8BT	071-588 4545
Mercury Asset Management	6	1,025	171	12	28 Kingsway, London, WC2E 8BT	071-280 2600
MM DC	6	1,025	171	12	28 Kingsway, London, WC2E 8BT	071-628 3434
Causeway Capital	5	59	12	10	28 Kingsway, London, WC2E 8BT	071-485 2525
Legal & General Ventures	5	59	12	10	28 Kingsway, London, WC2E 8BT	071-489 1888
Foreign & Colonial Ventures	5	59	12	10	28 Kingsway, London, WC2E 8BT	071-782 9829
Chase Manhattan	5	59	12	10	28 Kingsway, London, WC2E 8BT	071-726 5000
Swiss Bank Corp	5	59	12	10	28 Kingsway, London, WC2E 8BT	071-329 0329
Salomon	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-721 2000
CIBC Capital	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-224 8000
SUMIT	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	021-200 2244
Flinings	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-628 5858
Apex Partners	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-872 6300
Bank of Boston	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-799 3333
Garmore	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-782 2000
Hambro	3	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-480 9000
Bank of Scotland	2	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	051-442 7777
Baring Capital Investors	2	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-408 1282
Hambro Magan	2	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-283 1400
James Capital	2	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-283 5230
Unity Trust	2	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-481 3110
CWB Partners	1	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-225 8711
Notch Union VC	1	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	0800 622200
ECI	1	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-608 1000
Scottish Eastern Inv.	1	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	051-225 5552
Sun Life	1	20	6.7	3	11 Buckingham Palace Road, London, SW1W 0BS	071-608 7788
Others no longer active	41	1,025	171	12	28 Kingsway, London, WC2E 8BT	
None/not known/duplicate	19	1,025	171	12	28 Kingsway, London, WC2E 8BT	

Source: Dealogic, a CIBC Mellon unit. Figures are for deals of £10m or more. Figures are for deals of £10m or more.

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Senior debt and working capital provided by National Westminster Bank

Allen & Overy acted as legal advisers to the institutional investors. KPMG Peat Marwick acted as advisers to the MBO. Hambro Magan acted as legal advisers to the MBO. CINVen Limited is a member of IMRO.

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**CINVen**

Equity provided by:

British Coal Pension Funds, British Rail Pension Schemes, Barclays Bank Pension Fund, Candover Investments Plc, Barclays Development Capital Ltd, Midland Montagu Ventures Ltd

Senior Debt underwritten by Bank of Scotland

Coopers & Lybrand acted as investigating accountants and Nabarro Nathanson acted as legal advisers to the company. Arthur Andersen and Simon Ottinger acted as legal advisers to the equity providers.

CINVen Limited is a member of IMRO

This announcement appears as a matter of record only

**Holmwoods**

Leading Insurance Brokers

**£33m Management Buyout of Holmwoods Group Limited from Brown Shipley Holdings plc**

Equity arranged and led by

**CINVen**

Equity provided by:

British Coal Pension Funds, British Rail Pension Schemes, Barclays Bank Pension Fund

Senior Debt underwritten by Bank of Scotland

J O Hambro Magan & Co. advised the management team. Clifford Chance acted as legal advisers to the company and Nabarro Nathanson acted as legal advisers to the equity providers.

CINVen is a member of IMRO

... from a rather large venture capital company

CINVen Ltd. is a member of IMRO



## MANAGEMENT BUY-OUTS 4

MBOs using mezzanine				Total MBOs			
Number	Amount of mezzanine £m	Total value of deals £m	Number	Total value of deals £m	% of MBOs using mezzanine	% of deal covered by mezzanine	Average size of mezzanine layer £m
1981-84	-	-	26	880	-	-	-
1985	5	123	23	870	22	29	25
1986	7	96	27	940	26	25	14
1987	13	207	33	2,750	39	14	16
1988	26	280	56	4,510	47	15	11
1989	36	864	71	5,860	54	18	23
1990	33	208	58	2,010	57	18	6
1991	16	132	44	1,880	36	15	8
1992 (to date)	9	66	43	1,450	21	13	7
1981-92	147	1,976	379	21,130	39	17	13

Source: KPMG Corporate Finance

Lenders are becoming more involved in the structure of the deal

## Banks take a tough line

FORGET about the venture capitalists and the other providers of equity finance: the key to completing a buy-out nowadays is the banker.

The banks are still recovering from the losses and provisions they made on some of the highly geared deals completed in the late 1980s and take a far more cautious attitude to any lending secured on future cash-flows rather than more tangible assets.

"Banks are no longer competing for market share but rather are seeking quality assets and good returns," says Mr Anton Fawcett, head of buy-out finance at Barclays Bank.

In the past banks would often allow a buy-out to breach lending covenants only to see the equity provider walk away

when the company's fortunes continued to deteriorate. If the bank had pulled out when the terms of the loan agreement were first breached it could have probably recovered all its money, he says.

The result has been that banks are usually reluctant to

**Growing familiarity with buy-outs has meant that the banks now look more closely at projected cash flows and interest cover ratios**

lend more than half of the value of the deal and they insist on interest cover of at least two times from projected profits.

"It is still difficult to get debt in quantity on larger deals," says Mr Robert Smith, chief executive of Morgan Grenfell

Development Capital.

Figures from accountants KPMG Peat Marwick show that the ratio of debt and mezzanine finance to equity fell back to 1.3 to 1 in the first half of 1992 from 1.7 to 1 in the second half of 1991.

The decline from the peak of

in smaller deals, valued at under £10m, in the first half of 1992 equity and debt each accounted for 44 per cent of total finance with the balance made up by small amounts of mezzanine and loan notes.

In deals of more than £10m, equity accounted for 41 per cent and debt for 38 per cent.

Growing familiarity with buy-outs has meant that the banks now look more closely at projected cash flows and the interest cover ratio than at balance sheet ratios.

This reduction in gearing has meant that the equity providers have had to reduce their expectations of returns. Some are now starting to worry that

deals are "under-gearred". The result is that even greater pressure is being put on the venture capitalists to force down

the price of deals. If vendors will not go along with this then the deal will often not get done.

The role of mezzanine - high-yielding unsecured lending often with equity conversion rights - has also been squeezed as deal prices have fallen.

Mezzanine came in to bridge the gap between what the equity houses were willing to provide and bank lending in the 1980s but is now in less demand.

Slightly more mezzanine was used in the first half of 1992 than in 1991 but over the past four years the trend has been downwards. "Large deals still need mezzanine but smaller deals can be put together with just equity and debt," says Mr Ian Forrest of Montagu Private Equity (formerly Midland Montagu Ventures).

He also estimates that nearly 70 per cent of deals have some form of participation by the vendor company.

"This can be more flexible than mezzanine from an independent institution," Mr Forrest says. But some other providers of buy-out finance take the view that vendor loan notes complicate a deal, especially if something goes wrong and more money is needed later.

What has become noticeable over the past year is an increased desire on the part of the banks to involve themselves more closely in the terms of the deal. This is not always welcomed by the equity providers.

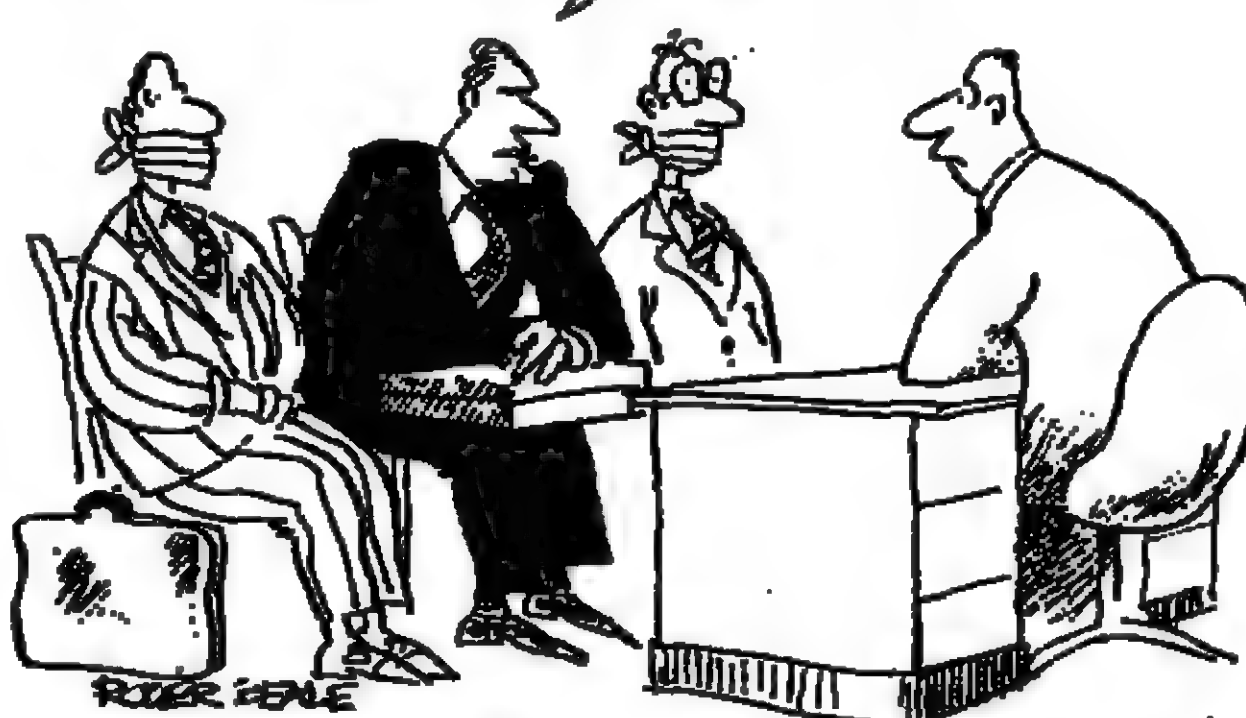
"The bankers are trying to take over the deal," says one venture capitalist, who fought off an attempt by one bank to obtain a power of veto of changes in the company's articles of memorandum.

## Analysis of gearing of UK MBOs over £10m

Period	Total funding £m	Equity £m	Mezzanine £m	Debt £m	Gearing (E.M.+D)	Mezzanine (% of total)
4 years to Dec-84	880	370	0	480	1.3	8
Dec-85	9,070	2,540	710	5,820	2.6	8
6 months to Jun-89	1,710	430	160	1,120	3.0	9
Dec-89	4,150	800	710	2,640	5.3	17
Jun-90	1,240	300	140	800	3.1	11
Dec-90	770	280	60	430	2.0	5
Jun-91	700	320	30	350	1.2	4
Dec-91	1,180	430	100	650	1.7	8
1992 (to date)	1,450	640	70	740	1.3	5

Source: KPMG Corporate Finance

WE BANKERS LIKE TO TAKE A MORE 'HANDS-ON' APPROACH TO OUR CLIENTS' NEGOTIATIONS THESE DAYS



The banks are acting tough because the shortage of debt finance puts them in a stronger position and because they realise they need to take a closer interest in the deals they were backing.

In the early days the banks relied on the venture capitalist to carry out an appraisal of the management and the company that they were backing.

"After one or two bad experiences we came to realise that this was a job we could not delegate," says Mr Fawcett. Barclays now often commissions a survey of the market in which the buy-out will be operating as well as carrying out a financial investigation of the company.

The banks have also grasped the opportunity to increase

their interest charges on buy-out lending and to push up their fees. They would aim for around 2 per cent over base rate and 1.5 to 2 per cent in up-front fees although they might not always achieve these levels.

In the longer term, some venture capitalists believe, the financial backers of buy-outs will have to pay increasing attention to obtaining a running yield on their investments as well as the capital gain on realisation.

This is because buy-outs are taking longer to reach an "exit" than some thought. Less than a quarter of the buy-outs completed between 1981 and 1991 have obtained an "exit", according to the Centre for Management Buy-Out Research.

"More deals will have a yield element," says Mr Gordon MacLean, a director of 3i. This is likely to lead to increased use of, for example, preference share capital and will increase pressures on management to perform.

Charles Batchelor

Smaller firms prefer to dispose of a buy-out through trade sales

## Flotation seen to lack lustre

FOR a few short weeks after the Conservative election victory in April the buoyancy of the London stock market prompted a surge of flotations of buy-out companies. In July MFI Furniture Group, Kenwood Appliances, Anglian Group and Taunton Cider were listed with a combined market capitalisation of more than £1.1bn.

The continuing recession and political uncertainty have since made a public listing unattractive for all but a handful of companies.

Such swings in the political and economic cycle are to be expected but of greater concern to managements and the organisations which finance buy-outs is a more fundamental decline in the opportunities for flotation.

While the early 1980s saw the launch of the Unlisted Securities Market (USM) followed in 1987 by the creation of the Third Market, recent years have led to a narrowing of the options for flotation.

The failure of the Third Market to attract sufficient high quality stocks and attempts to make the main market more accessible have brought about the demise of

the Third Market and a proposal by the stock exchange to wind down the USM.

Big Bang and the subsequent restructuring of the UK stock market have led to a concentration on the larger quoted stocks.

Even the main market has been unable to provide sufficient liquidity for the smaller

**'The Unlisted Securities Market is a shadow of what it was at its peak'**

quoted company. A number of large securities houses have withdrawn from making markets in many of the smaller stocks.

"The USM is a shadow of what it was at its peak," says Mr Michael Smith, managing director (Europe) of Citicorp Venture Capital.

"We probably wouldn't take

a company to the USM now but would encourage it to wait until it was of a size to go to the main market." Even there the absence of market makers at the bottom end is worrying.

Some buy-out financiers say that they never used the USM anyway because it was only a half-way house to a full flotation.

Others point out that some companies which were never suited to a listing were floated in the heady days of the late 1980s.

But even if excesses were committed during the boom, the effective removal of flotation as an option for the smaller company represents a loss to the buy-out sector. It may also have implications for the way deals are structured in future.

"People will have to be more conscious of the need for a running yield rather than just an exit realisation to get a reasonable return," says Mr Gordon MacLean, responsible for

larger buy-outs at 3i. This could lead to a greater emphasis on, for example, preference shares in deal structures.

In the short term, at least, managers of buy-out companies may have mixed feelings about the narrowing of the flotation option. They are only too aware of the problems which many small companies have encountered after obtaining a listing.

Companies have frequently been unable to make rights issues and have found the pressures of listed status too burdensome. They have to spend a lot of their time keeping shareholders informed while the stock market is unforgiving of any temporary setback in performance.

But while a flotation is the most high profile means of obtaining an "exit", a sale to a corporate buyer has proved to be the most common next step in the development of most

buy-outs.

Ten per cent of buy-outs completed between 1981 and 1991 were subsequently sold on to a trade buyer while just 4.4 per cent were floated, according to Nottingham University's Centre for Management Buy-Out Research.

A trade sale is often the only option open to the company which is too small to go for a flotation.

This usually allows the financial backer to realise all of his investment while managers, if they wish, can normally withdraw after a hand-over period.

A corporate buyer may also be prepared to pay a higher price than could be realised by flotation if it sees synergies resulting from combining the two businesses.

Swedish Match, which was sold to Procordia, a Swedish food pharmaceuticals group, earlier this year, considered a flotation, says Mr Smith of

## Listed and unlisted MBOs over £10m

Period	Number		Value (£m)	
	Total	Listed	Total	Listed
1981-84	26	1	880	370
1985	23	2	870	70
1986	27	2	940	30
1987	33	4	2,750	480
1988	56	6	4,510	840
1989	71	12	5,860	3,760
1990	58	4	2,010	170
1991	44	1	1,880	20
1992 (to date)	43	1	1,450	40

Source: KPMG Corporate Finance

Citicorp, which had backed the earlier Swedish Match buy-out.

But the company's activities had a wide geographical spread, making it difficult to value its overseas assets and to decide on which market to float.

A sale meant investors could get their money back, gave the management the opportunity for added responsibility within the larger group and allowed Swedish Match to benefit from Procordia's distribution network.

Del Monte Foods International got as far as announcing plans for a flotation in February 1992 amid suggestions it might attract a valuation of £450m. In October, however, it opted for a sale to a joint venture between two South African companies, Royal Foods and Anglo American Corporation, for £360m, citing stock market uncertainty.

Sometimes a company is too small to consider a public flotation. A market capitalisation of at least £50m is needed to consider a float while £100m often makes a more realistic minimum, says Mr David Hutchings, deputy managing director of Montagu Private Equity.

For all the thought that is given to "exits" only a small proportion of buy-outs over the past decade have reached

this stage of development. Only just over 23 per cent of buy-outs completed between 1981 and 1991 have achieved any form of exit whether flotation, sale, receivership or refinancing, according to the Centre for Management Buy-Out Research.

This may be partly explained by the fact that it was not until the late 1980s that buy-outs began to be done in large numbers - 815 in 1986 rising to a peak of 485 in 1989.

But the result is that the financial backers of buy-outs will have to devote much of their energy to exits over the next few years if they are to achieve their expected returns.

One option which has yet to be explored in any detail is the refinancing deal which allows the buy-out management to retain its independence. A refinancing which leaves the existing management in charge would depend on the business producing sufficient profits to fund the deal.

Buy-outs have in the past been criticised for encouraging short-term thinking on the part of managements and financiers. A refinancing formula which ensured continuity of management and ownership might go some way to counter this as well as meeting the wishes of managers.

Charles Batchelor

## From buy-out to expansion to acquisition, we've been a mainspring of Moorfield Holdings' success.

In August 1990, Christopher Burnett, then Chief Executive of Silentnight Holdings PLC, established his own furniture company - Moorfield Holdings - to buy out Silentnight's upholstery division, which comprised Buoyant Upholstery and Cntique.

"I approached a number of institutions," says Burnett, "but it soon became clear that County NatWest Ventures were ahead of the pack. Within a week of our first meeting they had put together an integrated £9.25 million funding package, comprising equity, mezzanine and senior debt, with all the funds being provided in-house".

Naturally, County NatWest Ventures' membership of the NatWest group means that we enjoy the massive financial resources and access to the wide range of skills necessary to take a long-term view of our clients' businesses.

And this has allowed us, since the buy-out, to support Moorfield's acquisition of the furniture division of Peter Black Holdings Plc, enabling the group to expand its product range.

Says Burnett, "I have ambitious plans for Moorfield, and the continuation of our strong relationship with CNWV is vital if these are to be achieved".

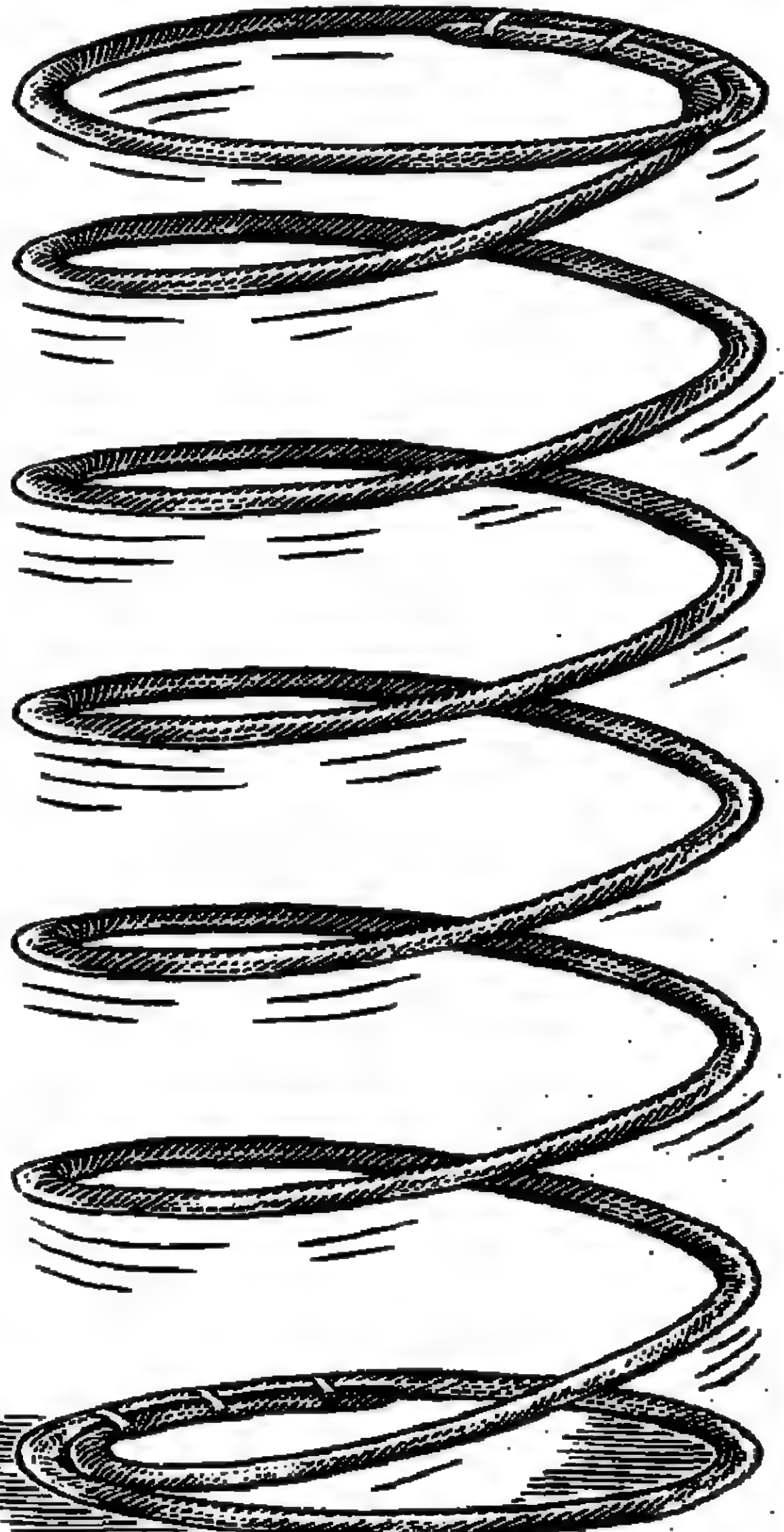
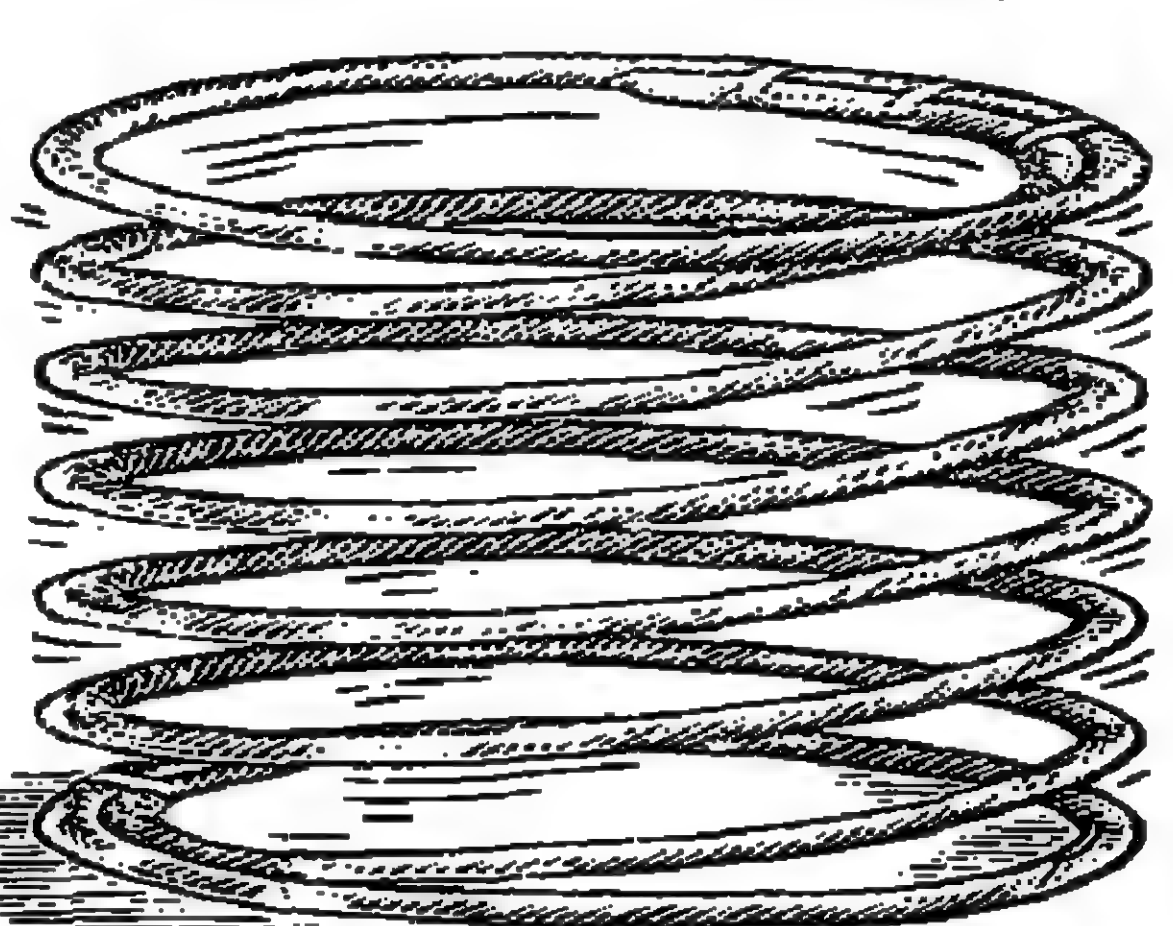
Clearly, at County NatWest Ventures we're more

than just investors: we're business partners. Since our success depends upon yours, once we have committed ourselves, you can expect our full and lasting support.

To date, we have committed over £400 million to around 400 different businesses through our network of offices in London, Birmingham, Bristol, Edinburgh, Leeds and Manchester. And now we can also play a part in your European aspirations through our new office in Paris.

For a copy of our 36-page brochure containing full case histories, call Denise Smith on 071-375 5421, or write to her at County NatWest Ventures Limited, 157 Bishopsgate, London EC2M 3UR.

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VENTURES  
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NOTHING VENTURED, NOTHING GAINED.

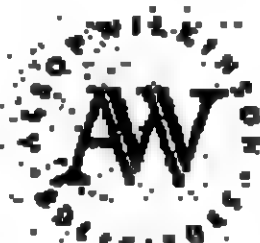
When you're considering an MBO, you don't just need a lawyer. You need a business partner.

The legal considerations of MBOs, Mergers & Acquisitions and all aspects of Corporate Finance require considerable professional expertise.

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LONDON MANCHESTER LIVERPOOL HONG KONG BRUSSELS NEW YORK



This announcement appears as a matter of record only

**£102,000,000**  
MANAGEMENT BUY-OUT  
OF THE COAL MINING BUSINESSES OF  
A. F. BUDGE LIMITED  
BY  
**R. J. BUDGE (HOLDINGS) LTD.**

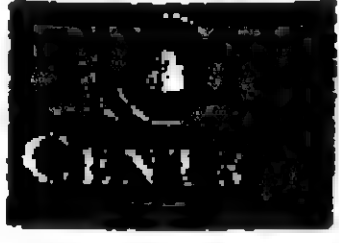
Equity provided by:  
Montagu Private Equity, Schroder Ventures,  
Charterhouse Development Capital Ltd.,  
Prudentia Venture Managers Ltd.

Debt provided by:  
Bank of Scotland, Morgan Grenfell & Co. Limited,  
Swiss Bank Corporation, Group plc

**MONTAGU PRIVATE EQUITY**  
*The Venture Catalysts*  
Montagu Private Equity Limited  
10 Lower Thames Street, London EC3R 6AE  
Tel: 071-260 9783 Fax: 071-220 7265  
A MEMBER OF IMRO  
member HSBC group

This announcement appears as a matter of record only

**MANAGEMENT BUY-IN  
OF REGIONAL PUBS  
FROM BASS PLC**



Led arranged and structured by:  
**Montagu Private Equity**

Equity underwritten by:  
Montagu Private Equity,  
Mercury Asset Management,  
Lloyds Development Capital  
(Birmingham)


Debt underwritten by:  
Midland Bank PLC

Due Diligence Accountants:  
Ernst & Young

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This announcement appears as a matter of record only

**£26,000,000**  
MANAGEMENT AND EMPLOYEE BUY-OUT  
OF  
CLYDEPORT LIMITED



Equity led and underwritten by:  
**Montagu Private Equity**




Financial adviser and arrangement:  
**Barry McKellar Ltd.**

Debt provided by:  
Bank of Scotland (Loan Bank),  
Midland Bank

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**MANAGEMENT BUY-IN  
OF  
AUDIO & VISION FURNITURE**

Transaction arranged by:  
**Montagu Private Equity**

Equity provided by:  
Montagu Private Equity  
and non-UK resident private investors

Debt provided by:  
Barclays Bank PLC

Reporting Accountants:  
Birmingham Office of Price Waterhouse

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**£25 MILLION FINANCING**  
MANAGEMENT BUY-OUT OF  
FIRSTEEL GROUP LTD

Acquired from Lomho Plc  
Led structured and arranged by:  
**Phildrew Ventures**  
and  
**Montagu Private Equity**

Institutional Equity provided by:  
The Phildrew Ventures Fund  
The Phildrew Ventures Third Fund  
Montagu Private Equity

Shareholders Loan Note provided by:  
Montagu Private Equity


Debt facilities from:  
Midland Bank plc

Professional Advisers:  
KPMG Peat Marwick, DBB Lupton Broomhead,  
Edward Erdman, Clifford Chance,  
Macfarlanes

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**£14,000,000**  
MANAGEMENT BUY-IN  
OF  
**STATIONERY**



Structured, led and arranged by  
**MONTAGU PRIVATE EQUITY**

Equity subscribed by:  
Montagu Private Equity

Charterhouse Development Capital Ltd  
County NatWest Ventures Ltd

Debt provided by:  
Bank of Scotland

Advisers to Management:  
Arthur Andersen

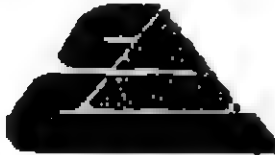
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**CCA Holdings S.A.**  
has acquired 100% of  
**Continuous Coil Anodizing N.V.**

The equity was led and arranged by:  
Midland Montagu Investissement  
Montagu Private Equity

The senior and subordinated debt was provided by:  
Kredietbank N.V.  
Hasselt, Belgium

Debt Financing Arranged by:  
Samuel Montagu & Co. Limited  
Specialised Financing Division

A management buy-out with:  
ACE Partners, Brussels

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**£12,500,000**  
(including working capital)  
Management Buy-Out  
Eight Engineering & Automotive Businesses  
from  
Mosaic Investments PLC  
Edgemond Group Limited  
including

Structured, Led and Arranged by  
Montagu Private Equity

Equity Co-underwritten by  
Montagu Private Equity  
County NatWest Ventures (Birmingham)

Debt Provided by:  
Midland Bank plc (Birmingham)

Advisers to Management:  
Touche Ross (Birmingham)

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## Problems associated with pure buy-ins have deterred backers

## Hybrid deal seen as a less risky option

## Management Buy-ins over £10m

Under 25m	
1985	
Gulfens	(10)
1986	
Acal	(10)
1987	
Life Sciences Int.	(11)
New Scotland Ins	(15)
1988	
Burn Stewart	(13)
Autoclenz	(13)
Claimont	(14)
European Brands	(21)
1989	
Range Valley	(11)
Abacus	(11)
Maison Caurette	(17)
Haigh Castle	(12)

Seyam	(13)
Country Casuals	(14)
Valor Stoves	(14)
British Air Forces	(15)
Hill Leigh	(15)
Exide Batteries	(18)
Britannia Data Mgr	(18)
ServiceTec	(20)
Themes Int	(22)
Rubatek	(22)
Hamleys	(24)
1990	
Wilcox	(10)
Fairmead	(10)
Anglian Fast Foods	(10)
Juliana Sound	(11)
E. Lancs Paper Mill	(11)
Cannons Sports Club	(14)
Hermes	(14)

Lycasholdings	(15)
Canarywharf	(15)
Betta Stores	(15)
Wingco	(23)
1991	
Ambion Homes	(10)
Blanco	(11)
Boylthorne	(11)
Dreadnought	(12)
Wellstar Int.	(12)
Sitex Specialty Paper	(13)
Eagle Tavernier	(14)
Bright Hosiery	(15)
1992	
Alexco & Vision Furnish	(10)
CCA Stationery	(11)
Chamberlain Plastics	(12)
Harris on Industries	(14)
Discovery Time	(23)

BSA Advertising		(25)
<b>25-50mm</b>		
1998		
Clow		(25)
1997		
Palmer		(42)
1998		
Lee		(27)
1999		
Northwood		(38)
1999		
Shannon		(29)
Court Cameron		(27)
1999		
Reverend		(30)
United News Shows It		(33)
Walker Alexander		(42)
David Brown		(46)

1991	
Lynx Hotels	(26)
Continity Inns	(34)
1992	
Generic Pubs	(29)
Marr Holdings	(30)
Sycamore Taverns	(35)
<hr/>	
<b>50 - 100m</b>	
<hr/>	
1987	
Old Emulsion Ind	(7)
1988	
Financial Ins	(55)
Leavers	(74)
1989	
Crockfords	(53)
Square Gm	(89)
James Neil	(79)

<b>1991</b>	
Enterprise Inns	(56)
Ushers of Trowbridge	(75)
Pavilion Services	(95)
<b>1992</b>	
Unicom Abrasives	(56)
Teesside Holdings	(63)
<b>Over 100m</b>	
<b>1982/84</b>	
Kingslister	(310)
<b>1988</b>	
Cope Allman	(285)
Lowndes Queensway	(450)
<b>1989</b>	
Gateway	(2,375)
<b>1990</b>	
Janis Hotels	(215)

Source: KPMG Corporate Finance

**Charles Batchelor**

## Building up the team spirit

Based in Fareham, Hampshire, People's Provincial

At the time of the buy-out, 20 per cent of the shares were in the workforce's hands and the remainder in the Esop. Now, after distributions of free shares and offers to buy shares, the workforce holds 60 per cent of the shares with the

A company sets up an employee benefit trust (EBT) to acquire some of its shares. The trust buys shares from an existing shareholder using proceeds from a loan guaranteed by the company and ser-

Shares are then distributed to employees, usually through an Inland Revenue-approved profit sharing trust (PST). Although shares can be sold to employees, most are gifted by

During an MBO, an Esop is the simplest way of including employees in the buy-out, purchasing shares on their behalf and distributing them once the buy-out has been completed.

"The greatest momentum was in the late 1980s," says M. Robbin Slagburn, senior corporate finance manager at Unit Trust Bank, which has funded several Esops.

Continued on Page 8

**Guthrie in \$20m  
Service Stations  
Management Buy-in.**

Against a number of competitive buyers from the UK and Continental Europe, Michael Guthrie's Pavilion Service has acquired all of the motorway service company, previously owned by Rank. The company plans to invest £15m over 3 years in modernising and improving the petrol forecourts and shops.

Commenting on the buy-in, Cadover's credentials in the catering business are inescapable; this combined with tighter management controls and the quality of the have yet to contribute their full potential, this buy-in."

Cadover are leaders in the retail catering organised over 50 pub units, buy-ins and £275m as well as providing development capital for smaller companies.

**LEADING DEBT ARRANGERS**

LEADING DEBT ARRANGERS			
	Total Number	Total Value (£m)	Average Value (£m) Number of Investments
1. BANK OF SCOTLAND	64	1168	18

Source: KPMG Corporate Finance 30.9.92

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# Who's next?

Candover is well known for arranging large management buy-outs and buy-ins and manages a £319m Fund that has provided the equity for the managers of companies such as Pavilion Services.

Now Candover has raised a new £37.5m fund - the Candover 1991 Fund, to finance medium sized buy-outs and buy-ins, mostly in the £5m-£20m range. It has already completed six investments.

If you think you could be next, contact Roger Brooke or Stephen Curran on 071-489 9848.

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## CANDOVER





# Management in the majority



December 3rd 1992

Buy-out patterns have changed since the heady days of the late '80s, but managers are

## 3i LEADS IN BIG DEALS

The multi-million pound management buy-outs of the late 1980s may be few and far between now but there are still plenty of larger transactions taking place.

According to KPMG Peat Marwick's latest figures for £10 million-plus buy-outs, some 380 such MBOs have now taken place in the UK of which 3i has led 50. This is nearly double the number led by its nearest competitor and confirms 3i's position as the clear leader at both the large and the small end of the buy-out market.

The KPMG statistics (in which management buy-outs are also included) show that in the first nine months of 1992 3i has led 10 large MBOs and MBIs with a total value of £280 million.

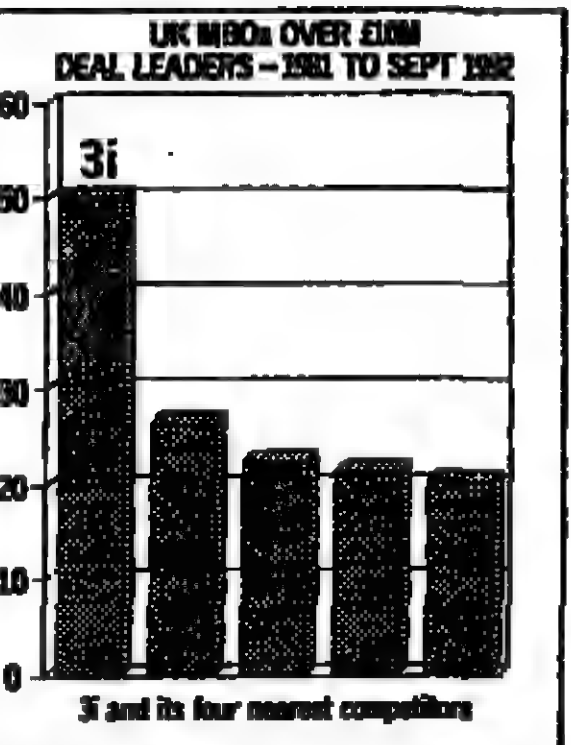
Given today's economic climate, it is not surprising that many of the 10 buy-outs and buy-ins led by 3i were disposals by large groups strengthening their balance sheets. They included the buy-outs of Civil & Marine Slag Cement Ltd from Evered Barton, of Standard Fireworks from Scottish Heritage Trust and of Zoetofarms from BP.

Largest 3i MBOs included a significant "public to private" MBO of Continuous Stationery, a formerly publicly quoted company which decided it could find its growth more satisfactorily as an independent company, trading as Protonprint Group.

Other examples include the management and employee buy-out at Cookhouse Power and the £15 million MBO at Tulchan Textiles.

To strengthen its ability to operate at the large end, 3i announced a joint underwriting agreement earlier this year with Prudential Venture Managers. Already, five MBOs have been arranged under this scheme.

The importance of the 3i-PruVen link-up was explained by



Rupert Wiles, executive director of 3i, in terms of a clear need in the market for a "bought equity" facility. "This gives a potential buy-out team financial credibility once they have convinced us of their abilities," he said, "and enables them to negotiate with the vendors secure in the knowledge that equity funding is available to complete the transaction. Together, 3i and PruVen can provide 'bought equity' up to a significant amount."

"This type of arrangement helps management teams reach agreement quickly and easily with the vendors. It also means the new company acquires long-term institutional investment with compatible objectives."

still taking control successfully

## 'Real' MBOs are still happening

Management buy-outs are as alive and well in the 1990s as they were in the boom years of the 1980s. New statistics by the Centre for Management Buy-out Research (CMBOR) show that, by number, MBOs accounted for almost 45% of corporate transfer activity in the first half of 1992 compared with 35% in 1990. The same statistics show 3i as clear leader in the market, with a 21% share of all MBOs - and almost 50% of the market in MBOs where there is institutional backing for the managers.

But 3i believes it is important to distinguish between "traditional" MBOs, where management hold the majority of shares (backed by a single investor) and those very large scale buy-outs (which became more common in the 1980s) where a syndicate of financial institutions take control of a company. The statistics indicate that the former type - which may be called the "real" MBO - continues to play a major role in UK corporate life.

### Realistic prices: more businesses sold at a discount to net assets

According to new research by 3i, published under the title Management in the Majority, there were 120 £10 million-plus MBOs between 1989 and 1991 but the numbers declined by almost 40% over that three-year period. In contrast, 514 traditional buy-outs took place in the same period, and although this represented a decline too, it was a decline of only 10%.

This 3i research is backed up by the CMBOR statistics. These show that buy-outs in the £1-5 million range, which tend to have a high management equity ratio, accounted for over 50% of MBOs in the first half of 1992.

The 3i research which focused on 188 buy-outs in which 3i invested between 1989 and 1991 and where management took a majority stake, provided important pointers to movements in MBO prices.

The average transaction price in 1989 was £1.8 million, falling to £1.4 million in 1991 as prices became more realistic and the number of buy-outs sold at a discount to net assets grew. The average P/E multiple paid by the managers was 7.5 on historic post-tax profits.

Meanwhile the proportion of risk capital invested by 3i averaged 35 per cent in 1989 and rose only marginally to 37 per cent in 1990 and 1991, resulting in average gearing of 175% over the period. This is a surprisingly stable figure and is contrary to expectations that the proportion of risk capital increases during a recession.

John Platt, executive director of 3i, said the management-owned type of buy-out had been somewhat overshadowed by a few large, highly publicised transactions. "What many people probably don't realise is that the former type of MBO represented 39% of the total UK buy-out

market during that time and that trend looks to be continuing," he added. A good example of a management-in-the-majority MBO was at Titan Airways, the air charter company.

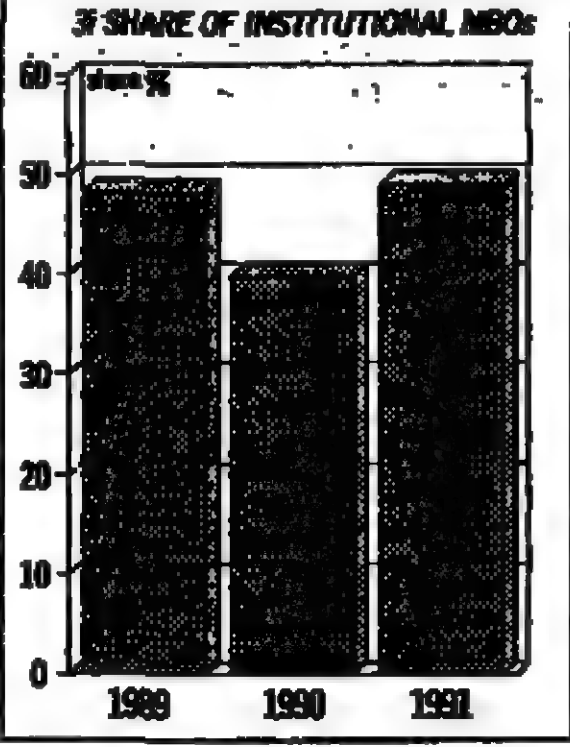
"The recession is still producing opportunities for MBOs as large companies look to raise cash by disposing of subsidiary organisations. With prices becoming more realistic and with careful financial structuring, an MBO undertaken in today's conditions could turn into an exceptional investment for the managers," John Platt added.

But 3i believes it is important to distinguish between "traditional" MBOs, where management hold the majority of shares (backed by a single investor) and those very large scale buy-outs (which became more common in the 1980s) where a syndicate of financial institutions take control of a company. The statistics indicate that the former type - which may be called the "real" MBO - continues to play a major role in UK corporate life.

Unfortunately, in some cases parent companies do not take the necessary steps to ensure their survival in time. These tend to be companies which have historically embarked on acquisition strategies and are unable to meet their debt repayment commitments when times get tough.

However, although a parent company may be in difficulty, subsidiaries may be eminently suitable for successful MBOs.

The troubled Brent Walker Group, for instance, recently sold its telephone information subsidiary, Interactive Media Services (IMS), to the management for £12.7 million. And when Berkeleys, the fashion firm, failed, the



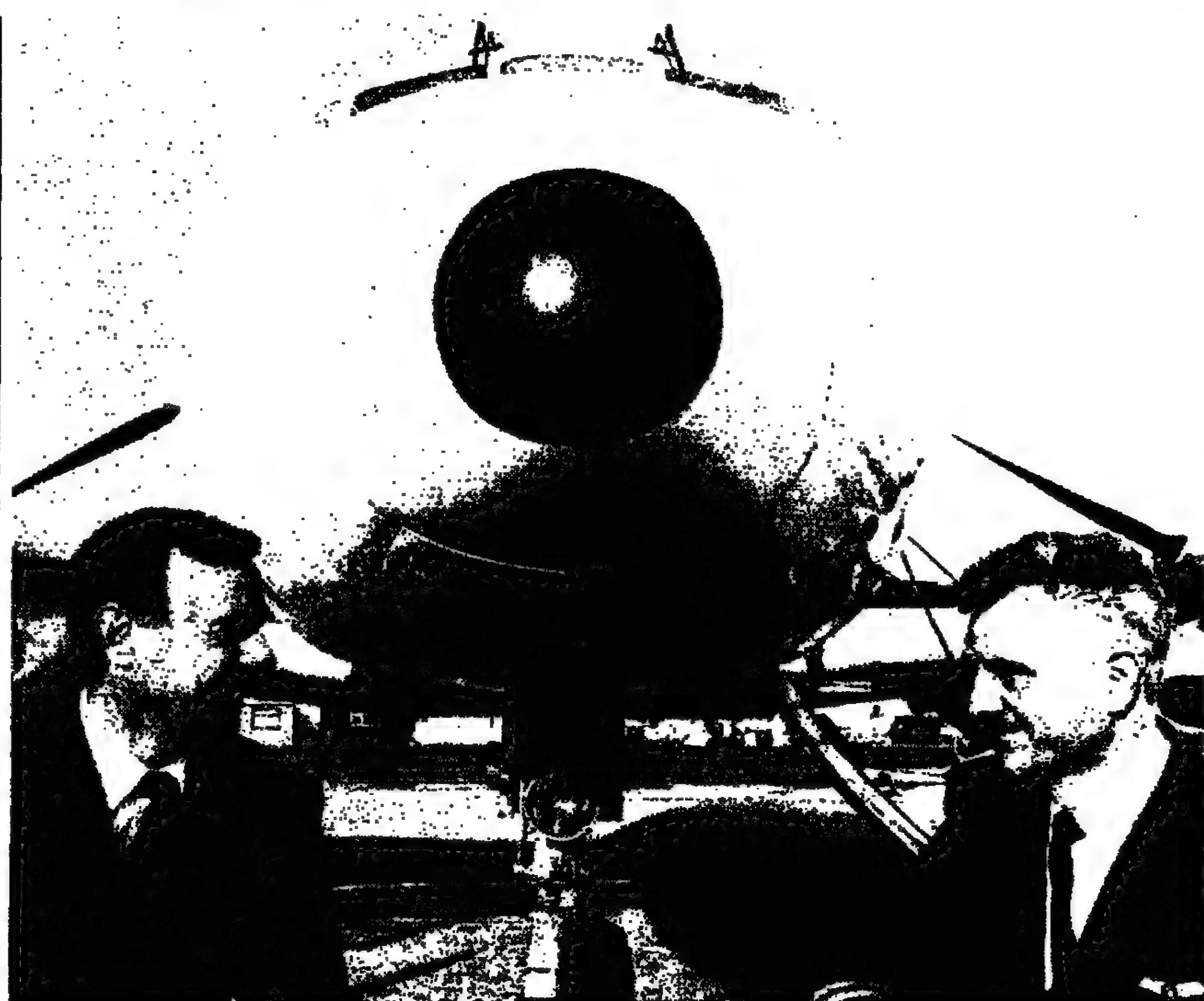
management of its subsidiary, Fifth Avenue, quickly carried out a buy-out.

Research by 3i shows a growing number of buy-outs from receivership being completed over the past three years. These accounted for just 2% of all buy-outs in 1989 but rose to nearly a fifth in 1991.

John Platt of 3i added: "It should be remembered that historically more companies fail coming out of recession than do when we are in a recession. With this in mind, we expect to see an increasing percentage of the buy-outs we complete over the next couple of years arising out of receivership situations."

So MBOs not only remain fashionable, they also make good sense - both for the vendor looking to raise cash and for the MBO team, keen to manage and grow their own business.

\* Copies available, free, from Marketing Department, 3i plc, 91 Waterloo Road, London SE1 8XP. Tel: 071-928 3131



MBO at Titan Airways: MD Gene Willson (in uniform) and sales director Brian Donald

## What is a Buy-out manager like?

The papers have been full of articles explaining the intricacies of what it is to be an Essex man, a Fulham man, a Chelsea girl. We know where they come from, where they shop and how they earn a living. Where does the MBO manager come from? How old is he? Or she?

As part of its recent research into management-owned MBOs in which it has invested between 1989 and 1991, 3i looked at the characteristics which make an MBO manager.

The sample showed that the average size of the buy-out team was between three and four directors. Bearing in mind that these directors have reached top management positions within the companies they work for, it is not surprising to find that the average age of the directors was 42.

Contrary to figures from the Policy Studies Institute showing that under 5 per cent of companies in the UK have women directors, 16 per cent of the buy-outs in the sample included one or more women in the team.

### Typical investment: by team totals £100,000 to £150,000

Over a third of the managers surveyed had agreed from the outset that they would benefit from the additional expertise of a non-executive director. 3i welcomes this as making it more likely the MBO will prosper. Indeed, 3i set up a dedicated Independent Directors Programme in 1986 which has just under 300 members and makes around one hundred appointments a year.

Total turnover of the sample

companies was £685 million at the time the companies were bought out, with a typical company earning pre-tax profits of £275,000 on sales of £4 million. To acquire a business of this size the amounts involved varied from

Pither and Clive Holden, put together a proposal. Trevor explained: "Our main problem was raising the finance. The price was £350,000 plus debt of £150,000. We could contribute £100,000 between us

requirement of £300,000.

"Speaking to the venture capital companies was like wading through treacle. We didn't seem to be getting anywhere. Then one day a piece of publicity material arrived on my desk from 3i. I contacted them immediately and it really was like a breath of fresh air. The buy-out was completed with 3i investing £300,000 in the form of equity and long-term loan capital plus an additional £100,000 secured loan as working capital."

As part of the transaction, 3i introduced Trevor Piggott and the buy-out team to Andy Andrews, former chairman of Offex plc and Denison plc, who became a non-executive director. Since the buy-out 3i has made a further investment to support the growth of the business as it expands its product range.

Two years on from the buy-out, Trevor says he has no regrets and would not hesitate to go through the process again.



"Mr. Berkolis, the leveraged buy out has gone through and your ruin coin is here."

over £8 million to £200,000.

The average management team is three or four and together they invested between £100,000 and £150,000.

Over a third of the managers in the sample were based in the South-East, including London and East Anglia; 22% were in the Midlands; 19% in the North-West, North-East and Yorkshire; 34% were in service industries. However, 40% were in manufacturing companies.

A typical example of an MBO manager is Trevor Piggott. For 26 years Trevor had been employed by the Watford-based UK Lift Company. During this time he had gradually worked his way up from the shop floor to managing director. When Walker Greenbank plc, the parent company, made it clear that it was keen to sell as part of its rationalisation strategy, Trevor, with colleagues Gary

## The Bimbo factor

Management buy-outs are not a long-established feature of corporate life in the UK and management buy-outs are certainly not fast. However, hidden among these two changes of ownership methods is the BIMBO - the hybrid buy-in/buy-out.

The BIMBO can be used to strengthen either MBO or MBI teams. Often, an MBO team is joined by an experienced equity-buying outside manager. Or a buy-in team can include one or more of the existing management in the transaction.

Either way, BIMBOs are good for the business and appear to be on the increase. Last year, 3i backed 27 such transactions and believes that number is probably a conservative estimate.

The term BIMBO arose out of 3i research into factors that make a successful MBI. No why do BIMBOs work?

They reduce the risks associated with straight buy-ins. Inevitably, by including existing management, any skeletons are likely to be revealed at an early stage.

\* With a BIMBO, the existing managers do not feel threatened by an outside takeover and are therefore keen to maintain the company's performance.

\* A complete and unified management team results in a higher level of motivation.

BIMBOs have saved many buy-outs from collapse by adding an outside manager to complement the team, typically in the role of investing chairman. Many of these managers were introduced from 3i's MBI Programme which has been running since 1987.

### The best of new blood plus the best of local knowledge

One recent example of a BIMBO is Whitworths Produce Group, the vegetable pre-packing and processing business, which was acquired for £11 million from Booker plc. Philip Emerson identified the company while he was taking part in 3i's MBI Programme and joined forces with three members of the existing management to acquire the group with 3i's backing.

3i believes that BIMBOs make good sense and expects to see a lot more in the 1990s. Whether it is the buy-out or the buy-in team that needs bolstering, the BIMBO brings continuity for the business through existing management, additional expertise from external investors and greater peace of mind for institutional backers.

Big corporations get back to core business: the cue for independence

## Where do MBOs come from?

Gone are the boom days of corporate activity when mergers, acquisitions, takeovers and high profile buy-outs ruled the day. But recession can be a time of opportunity as many managers over the past 18 months have found. In the past two years more than 900 management teams have seized the opportunity to become owners of the companies they previously ran.

Many of these have been buy-outs from UK quoted companies. Following the current corporate trend to move away from diversification, a business practice so popular in the early 1980s, many large companies are concentrating on core business where the majority of the skills within the company lie.

As a result of this process, peripheral subsidiary companies and divisions have been put on the market - at realistic prices. This process forms an important source of management buy-outs where the managers are in control.

A good example is Lawtons, a Liverpool-based distributor of packaging systems and consumables, which was bought by its management earlier this year in a



Chris Lansdowne of Lawtons: MBO at a specialist packaging company.

£3.3 million MBO from parent, American Brands.

Lawtons' managing director, Chris Lansdowne, said they had been aware for some time that the company's future growth lay in industrial packaging and fastening products and the area of pre-packaging. "The company did not fit into our parent's core activities. However, since the MBO, we have been able to refocus our business and take it forward at a much faster pace than would have otherwise been possible," he said.

"As an independent owner-managed company, we have much shorter lines of decision making and the freedom to make and make decisions quickly. Our 100 employees are happy, our suppliers have been very supportive and we now expect to grow more quickly than would have been possible before the MBO."

Management buy-outs not only arise from corporate restructuring situations, they can and will continue to exist as a management buy-out team. After over

ownership of private companies. Returning to 3i's research, around 25% of the buy-outs completed in the three-year period under review were from private companies and many of these were associated with problems of shareholder and management succession.

Earlier this year 3i invested capital to enable the successful change of ownership of Holt-based Structure-Flex from its founder David Frankel to a management buy-out team. After over

20 years of building up Structure-Flex from a start-up company into a £4 million turnover business, Frankel was ready to retire and hand over the reins to a younger team.

### Alternative to a sale: owners opt for continuity

Rather than exit through a trade sale which would not necessarily ensure that the company retained the name and identity it had developed and its independence, Frankel preferred to sell to the existing management team which was headed by 39-year-old managing director Ian Doughty. Following the management buy-out, Frankel was free to retire from the business taking with him a sizeable reward for his efforts throughout the years. As important, he was safe in the knowledge that the company would continue to grow under the control of a management team committed to its success.

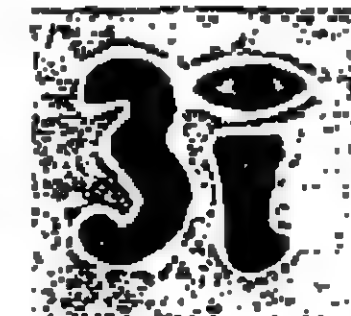
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## MANAGEMENT BUY-OUTS 8

## EASTERN EUROPE

## Buy-outs back on the agenda

MANAGEMENT and employee buy-outs are back on the eastern European agenda. Fears that "red directors" would profit from new free market economics as privatisation fever gripped the region, have faded and the extent of buy-outs - especially for small to medium sized firms and spin-offs from large state firms - seems greater than earlier indications would suggest.

The widespread ability of managers associated with the former communist regimes to acquire their firms in so-called "nomenklatura buy-outs" produced considerable resistance to the phenomenon. However, it is now recognised that, in many cases, such managers are the only available entrepreneurs for such a deal.

Information on buy-out activity in eastern Europe is difficult to obtain. As well as an unknown number of nomenklatura buy-outs, several thousand hundred buy-outs of retail premises and small workshops have been completed.

In Russia, half of the smaller sales - an estimated 6,500 transactions - have involved buy-outs.

Similarly, in Romania, 270 out of 1,100 smaller activities sold up to October this year were to employees. But apart from those in the former German Democratic Republic (GDR), buy-outs of sizeable enterprises have so far been limited.

By June this year, of the

total 8,175 privatisations carried out by the Treuhandschaft (THA), the German state privatisation agency, 18 per cent were buy-outs and about 1 per cent were buy-ins.

Over 1,100 buy-outs have involved companies with fewer than 100 employees. However, large buy-outs are possible with two of the largest to date being Anhaltener Stahl und Anlagenbau (Asa) and Industriemontagen Leipzig.

The Privatisation Law in Poland allows for a procedure

Finance can be a problem in the completion of buy-outs in the region

of "liquidation" whereby a buy-out occurs when incumbent management and employees create a private enterprise to lease state assets. The original state-owned enterprise is subsequently wound-up.

By October 1992 more than 450 out of a total of about 800 sales were buy-outs. In Hungary, around 20 buy-outs are estimated to have been completed under the recently introduced self-privatisation legislation, with its emphasis on foreign trading companies and services.

In Romania four companies have been selected to be sold through management buy-outs as part of a pilot privatisation project, three of which have so

far been completed.

In Estonia, two of the first seven pilot privatisations (Sami and Mareta) were full buy-outs and four others (Baltika, Valga, Voiti and Talleks) were buy-outs in which management and employees were obliged to leave minority stakes with the state or to sell them to the general public.

Slovenia, which under its initial Draft Privatisation Law gave pre-eminence to buy-outs, has seen them completed via several routes. Seven have been completed in the past 18 months through arrangements whereby workers councils transfer ownership to the privatisation trust which then sells the shares back to the employees.

A further 17 have involved privatisation through the internal acquisition of shares using the old Yugoslavian legislation. Most, however, have occurred through the "drop-down" method in which a newly created company owned by management and employees buys or leases the assets required from the old company.

Finance can be a problem in the completion of buy-outs in eastern Europe in the absence of established venture capital firms and where management lacks the necessary personal resources to meet down payments.

The so-called "E-credit" guaranteed by the National Bank

makes it possible in Hungary to obtain loans for buy-outs on favourable terms. In order to obtain the credit management must pay at least 10 per cent of the purchase price with their own resources.

Elsewhere, down payments range from 15 per cent in Slovenia to 30 per cent in Romania. In the former GDR, to help solve the problem of limited personal finance, a programme of *Eigenkapitalhilfe* (equity support) of loans up to DM1m were introduced for

Pilot privatisation buy-outs in Romania have made use of clawback arrangements

managers wishing to acquire at least 20 per cent of a firm's equity - as long as this amounted to less than 40 per cent of the total invested.

The value of enterprises presents problems, it is difficult to satisfy political demands that assets are sold at a fair price without bringing the privatisation process to a grinding halt as the limited staff of privatisation agencies struggle to investigate fully each deal.

The result has been the development of decentralised or self-privatisation. In September 1991 self-privatisation was introduced in Hungary principally for smaller firms. Buy-out teams have to provide an inde-

pendent valuation of the company using a government-approved consultant. The consultants have to give priority to management and existing employees.

Maintaining their reputation and position on the government's list gives consultants an incentive to make a fair valuation. This can be difficult in an uncertain environment where incumbent managers may try to influence the apparent value of a business.

A number of countries now insist on an auction but outsiders may be unwilling to bid against incumbents. Attempts to deal with the problem of undervaluation in the privatisation of former GDR assets include purchase price adjustment and clawback clauses if the enterprise is sold within a relatively short period or without accompanying property.

In addition, penalties can be incurred if investment and employment guarantees made by the purchaser are not met. The pilot privatisation buy-outs in Romania have also made use of clawback arrangements whereby purchasers are not allowed to sell land and buildings within a 10- to 20-year period. If they do, all proceeds above the inflation-adjusted figures in the initial buy-out contract are clawed back by the state.

Uncertain conditions in many markets pose questions about the viability of MBOs. For this reason, buy-outs are



The future of buy-outs in eastern Europe is linked to voucher schemes

frequently only considered as options for viable firms. Western industrial partners who can provide capital and marketing expertise may be unwilling to buy unless they can obtain majority control - something management may

be unwilling to concede. Identifying suitable buy-in managers where a buy-out is not feasible also presents problems, as the THA found when it launched such a program in January. Of the more than 1,000 enquiries received from

interested western managers, less than 50 are expected to acquire a suitable target.

However, a small number of buy-ins by western managers have taken place, the largest being the estimated DM400m buy-in of Elpro and TGE by a partnership of three ex-McKinsey consultants and three industrialists.

The future of buy-outs in eastern Europe is also linked to the development of voucher schemes. The political benefits of voucher-based mass privatisation schemes for some segments of the population has frequently caused problems for the advocates of buy-outs.

Both schemes can co-exist for different sized companies and recent developments indicate that it may be possible to include both elements in the privatisation of a particular firm. A minority of shares in a company can be acquired through vouchers, including the possibility for employees to exchange vouchers for shares in their company, with the majority of the shares being sold at auction to incumbent management and employees.

Taken with signs that delays in passing privatisation legislation are coming to an end, the indications are that buy-outs are set for considerable growth throughout eastern Europe. However, great care still needs to be taken in balancing incentives for management and employees to take the risk, with continuing public concern about the nature of such deals.

Mike Wright,  
Igor Filatov  
and Trevor Buck

Centre for  
Management Buy-out Research  
University of Nottingham

## GERMANY

## Showing potential

In Frankfurt calculates that there are 70 or 80 institutions pursuing venture capital business in Germany, and that over the past decade the market has grown sixfold to DM4bn. This compares to a market size of DM6.5bn in France, DM1.7bn in the UK and DM0.5bn in the US.

Of the total invested in Germany, he says that MBO finance accounts for a relatively modest DM620m-DM630m. While the bulk of the DM4bn financing is start-up or expansion capital, he says about a dozen firms are concentrating on the buy-out segment of the market, where risks and returns are high - and the prospects for growth better than in mainstream venture capital.

The first off-cited cause for optimism is the so-called "succession problem" in the "Mittelstand", or mid-sized compa-

nies. These family-owned companies, which play a central role in the western German economy, were often built up after the war and have now reached the point where the first two post-war generations of family-managers have retired or are approaching retirement.

Earlier this year a study produced by the German arm of 3i, the UK venture capitalist house, argued that third generation inheritors often lose interest in managing the business. Mr Römer thinks 700,000 companies out of the total of 2.3m companies in Germany will have problems with succession during the course of the next decade.

Mr Friedrich Graf von der Groeben, chief executive of Schroders & Partner, the German arm of Schroder Ventures, says that in addition to the succession problem there are pressing industrial reasons why owners of medium-sized companies will make increasing use of buy-out finance. He argues that many Mittel-

stand are simply too small to preserve their independence and that they need to merge to achieve economies of scale in increasingly competitive world markets. Buy-out specialists can act as a catalyst to this needed rationalisation.

Another cause for optimism is that most of Germany's biggest companies are conglomerates which owe their shape to chance rather than coherent strategy, and in the long term it is likely that they will start thinning out their portfolios.

This is another potential

David Waller

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## Team spirit

Continued from Page 6  
"They aren't the kind of thing companies think of doing when they're just trying to survive."

In spite of this, money is still available, even if it is only in the hands of employees. At least two of this year's Esop-related buy-outs have been subscribed by their workers.

When the Port of Tilbury completed its buy-out from the Port of London Authority in March for £33.5m, employees could buy 17 per cent of the shares. The offer was oversubscribed by 21 per cent as 55 per cent of the workforce came forward to buy.

The average purchase was for £2,400 of shares, says chief executive, Mr John McNab. "It's a heck of a lot of money and people are already asking if they can buy more."

Why companies should attract so much financial support from their employees in such straitened times is open to debate. However, it may be a sign that those who are employed are keen to back and be part of their company.

Numerous attempts have been made to broaden the appeal of Esops. The statutory Esop, introduced under the 1989 Finance Act, can operate like the popular case law Esop but receives additional tax advantages.

For example, shareholders selling at least 10 per cent of their shares to an Esop may be able to claim capital gains tax rollover relief.

In 1991, the Esop Centre launched a model Esop in an attempt to make it easier and less expensive for companies to establish a statutory Esop. The model steers companies and their advisers through recent legislative changes and includes a model trust deed.

Unfortunately, the qualifying requirements for a statutory Esop have proved so onerous that even the model Esop has failed to woo companies.

The Esop Centre is now lobbying government to make radical changes to the statutory Esop, to make it more attrac-

tive. Its 10-point plan includes proposals to:

- Make the trustee a subsidiary company (so that no individual - such as an employee - has personal liability as a trustee);
- Allow part-time and new employees to benefit; and
- Make statutory Esop trusts tax neutral.

Malcolm Hurlston, director of the Esop Centre, established to encourage Esops, is hopeful that these points may be accepted in the next Budget. "It will be the main way of making Esops popular."

In the meantime, some of the trade unions are beginning to see the attractions of Esops. The MBOs of Cookeragh Power and People's Provincial Buses had the backing of their respective unions.

However, some trade unions remain sceptical. "Many have a problem of coming out in support of Esops at national level, as it smacks of capitalism," says Mr Blagburn. "They're also wary of Esops being seen as pension substitutions, as they have in the US."

Mr David Tankel, director at the management and buy-out consultancy, New Bridge Street Consultants, believes that management attitudes to Esops and wider share ownership are changing. "Managers are beginning to see the benefits of employees having a sense of ownership of the company and being committed to it."

Mr McNab at the Port of Tilbury, has seen his employees' attitudes to the company changing. "People feel they're working for themselves, they can have an impact on the company and see a return on their investment by being co-operative," he says.

It is still early days for Esops. They will, of course, only be successful if the company is successful. That, in the long-term, may be the best - or worst - advertisement they can have.

Hester Thomas

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<p><b>London</b></p> <p><b>SRH plc</b></p> <p>£12,000,000 Acquisition Price - June 1991</p> <p>Led by MURRAY JOHNSTONE A Member of TSBK</p>	<p><b>Bradford</b></p> <p><b>Yorkshire Food Group Limited</b></p> <p>£11,000,000 Acquisition Price - March 1991</p> <p>Led by MURRAY JOHNSTONE A Member of TSBK</p>	<p><b>Salford</b></p> <p><b>Carroll's Pines Crest Co. (UK) Ltd.</b></p> <p>£15,500,000 Acquisition Price - May 1992</p> <p>Led by MURRAY JOHNSTONE A Member of TSBK</p>

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## MANAGEMENT BUY-OUTS 9

## THE US

## Activity still sluggish

AN AIR of dreary inactivity hangs over the management buy-out business in the US. Few deals are being done, many leveraged buy-outs with funds and existing MBOs, undertaken in the heady 1980s, are mainly interested in refinancing their balance sheets, replacing high levels of borrowings with either equity or a less expensive debt securities.

Industry figures paint the picture clearly. According to Securities Data, the financial information services group, the current year has generated 124 management buy-out deals, with a total value of \$4.87bn (this is measured in terms of deals announced, not necessarily completed, and the cumulative total runs up until November 16).

This level of activity is roughly on a par with the equally drab levels seen in 1991. Then, in the 12-month period, 170 transactions were announced, with an aggregate value of \$4.79bn. This, in turn, repeated the 1990 experience, when managements and deal-makers produced 175 deals, with a combined total value of \$5.61bn.

But in all three years - 1990, 1991, and 1992 - activity was way short of the veritable feast of MBOs undertaken in the late 1980s. In 1989, for example, the industry notched up 296 transactions, with a value of \$34.4bn while in 1988, the figures ran at 294, with a heady

aggregate value of \$94.5bn. The reasons for this drop-off in activity have been well-explored. For a start, the crisis in the US commercial banking sector - fuelled by its exposure to ailing property assets - has meant that banking support for anything but the most conservatively-structured deal has been hard to obtain.

Second, the recession has made the profitability of many businesses unpredictable, and hence the stable cash-flow projections, essential to a successful MBO, cannot be guaranteed.

In fact, the only significant management buy-out deal undertaken this year has been the purchase of American Reinsurance Company, a subsidiary of the large Aetna Life & Casualty insurance group, by a group led by Kohlberg, Kravis Roberts, the Wall Street LBO specialists.

The deal put a price-tag of around \$1.4bn on the reinsurance business, and represented the first billion-dollar-plus deal engineered by KKR since its record-breaking \$25bn purchase of RJR Nabisco in 1988.

It was all the more surprising that this single billion-dollar MBO should occur in the insurance sector, which was generally kept out of the debt-financed takeover binge of the 1980s - not least by wary state insurance regulators.

The AmRe deal, however, was complex and a less than "clean" disposal on Aetna's part. Although the seller received around \$1.3bn in cash and took a \$78m gain on the sale into its third quarter results, the Hartford-based insurer also provided a reinsurance contract to AmRe. This provided that Aetna would meet 80 per cent of any AmRe incurred losses for 1991 or earlier that are still outstanding at January 1, 1992, and in excess of \$2.7bn. The maximum potential payment was capped at \$50m.

After the AmRe transaction, the value of individual deals announced this year falls away sharply. The next largest is the pending offer by a management group and First Chicago Venture Capital, part of First

Chicago bank, for a variety of timber-related assets put up for sale by Procter & Gamble. According to Securities Data, the estimated bid price is \$700m. P&G announced that it intended to divest its entire wood pulp division back in March, and has already agreed to sell part of the division to Weyerhaeuser, the large West Coast timber company.

After that, there is the \$525m purchase of MS/Essex Holdings, a New York-based manufacturer of electric cable, wire and wire insulating materials, by Bessmer Capital Partners, acting in conjunction with the management and Donaldson, Lufkin & Jenrette, the New York brokerage house. In this case the seller was also an LBO investor - namely, the Morgan Stanley Leveraged Equity Fund II.

It is difficult to envisage any dramatic improvement in the climate for MBOs in the US in the immediate future. Although there are some signs of an improvement in the economic climate, they are tentative and the confidence which suffused the 1980s is still sadly lacking. The banking industry, if slowing recuperating, is scarcely healthy - and the real estate market remains tough. In short, the MBO market could be caught in the doldrums for a while yet.

Nikki Tait

## FRANCE

## Damage not permanent

figure that stands up is that for the average size of buy-outs and buy-ins, which rose from FF3.3m (\$61m) in 1990 to FF5.5m in 1991.

Most operators are biding their time until the economy turns around, banks become braver and the prices of companies fall to more realistic levels. Asking prices are lower than they were two years ago, but the drop is "not very significant yet", says Mr Daniel Toulmond, a partner in Suez Finance Conseil. He expects further declines in 1993.

Banks have been more cautious about lending for highly-leveraged deals, even though the gearing - or debt-to-equity ratio - has come down sharply over the past three years.

Although this reflects leaner times, the reverse was welcomed at a time when fears were mounting that France would follow the US with its over-leveraged transactions and sometimes spectacular corporate collapses.

Buy-ins are increasing in

importance. Nearly all deals used to be buy-outs, says Mr Cahen-Salvador, because there was no supply of proficient outside managers to be tapped. Now, however, more quality managers are available and, says Mr Maurice Tchenio, director of Apax Partners & Cie, since the companies involved are less profitable, they need a fresh injection of expertise as well as cash.

For Mr Cahen-Salvador's LBO France, buy-ins are now running equal to buy-outs numerically, while for Mr Toulmond at Suez, buy-ins are now in the majority.

While most agree on the direction of MBO activity, obstacles caused by tax issues are hotly debated. Fiscal integration is allowed only if the transaction covers 85 per cent of the new company's capital, which upsets some operators but not others.

Mr Cahen-Salvador is an outspoken critic of the rule, claiming that one recalcitrant member of an owning family with a stake of only 5.01 per cent can prevent an attractive

deal taking place. He claims that even a 5 percentage point cut in the threshold would help under current tax laws.

Mr Tchenio, however, believes the 85 per cent rule is not much of a brake. Problems can arise, he says, with listed companies and dispersed shareholdings, but these have little impact on the underlying need for MBOs or other LBOs.

There are ways around the difficulty, says Mr Jean-François Court, chairman of AFIC's fiscal and legislation committee. One way is for a holding company to charge the operating subsidiary management fees, which reduces the tax bill and neutralises the lack of integration.

Scrapping the rule is "not a priority", even though it would be simply procedure, he says. More important is to obtain greater flexibility over exonerations of capital gains tax on venture capital funds' investments in companies with at least 50 per cent of their shares listed in EC countries.

The problem is that this applies only if the target holding company holds at least 40 per cent of the voting rights in its operating subsidiary, which is rarely the case with multi-tier corporate structures. Mr Court explains. He has been lobbying the Finance Ministry for a change, and hopes for a reply before the end of the year.

Barbara Casassus

## ITALY

## Cost of finance acts as a deterrent

"THIS year's results are not encouraging. The economic situation, high interest rates and fiscal tightening mean that 1992 will definitely be worse than 1991 for buy-outs in Italy," says Mr Franco Papi, corporate finance partner at KPMG Peat Marwick in Milan.

Not that last year provided much reason for enthusiasm. The firm's data base shows that 16 operations in total were announced in 1991 - three fewer than in 1990. Moreover, KPMG Peat Marwick says that the market value of deals plunged by 53 per cent.

This year the value will probably decline further. According to Mr Dante Razzano, Morgan Grenfell Italia's managing director, there have been no significant buy-outs, above \$100m, in Italy in 1992. "A combination of high interest rates and heightened consciousness of lending risks among Italy's banks has reduced buy-out activity," says Mr Razzano.

The cost of finance is the factor most frequently mentioned as a deterrent to buy-outs. "It is almost impossible to consider leveraged operations at current interest rates," says Mr Guido Belli, a senior executive with Sopa Group's Invest, a leading Italian investment bank.

The MBO deal by which Invest took a 70 per cent stake in the building materials company SADI at the beginning of the year was one of four mentioned by KPMG Peat Marwick. "It is the only operation that we have completed in 1992," says Mr Belli.

The fact that yields offered by buy-outs in Italy are unattractive is not only because of

the high cost of money. Prices sought for businesses have often been high, a factor that has also prevented the growth of buy-out numbers. "Many owners have held inflated ideas about the value of their companies. Moreover, they believed that prices could only go up. But, after the shocks of the summer and autumn, a sense of reality is beginning to show," says Mr Razzano.

Mr Jonathan Bliss, director of 3i, also remarks on greater pricing realism. "Results in the corporate sector were disappointing in 1991 and business men now recognise that returns will be poor this year and that recovery is unlikely next year. Prices are starting

to reflect this."

3i is not typical of buy-out operators in Italy, where it started business two years ago; it wants only minority stakes and looks for longer term investments. It also wants low gearing in operations in which it participates, with debt to equity ratios of about one. "We want to avoid the higher risk that accompanies high gearing," Mr Bliss says.

Schroder Associati is less concerned about debt/equity, but looks carefully at debt/cash-flow.

"Interest cover is the key measure. The number of times that financing costs are covered by the company's cash-flow is what counts," says Mr

Paolo Colonna, the firm's director.

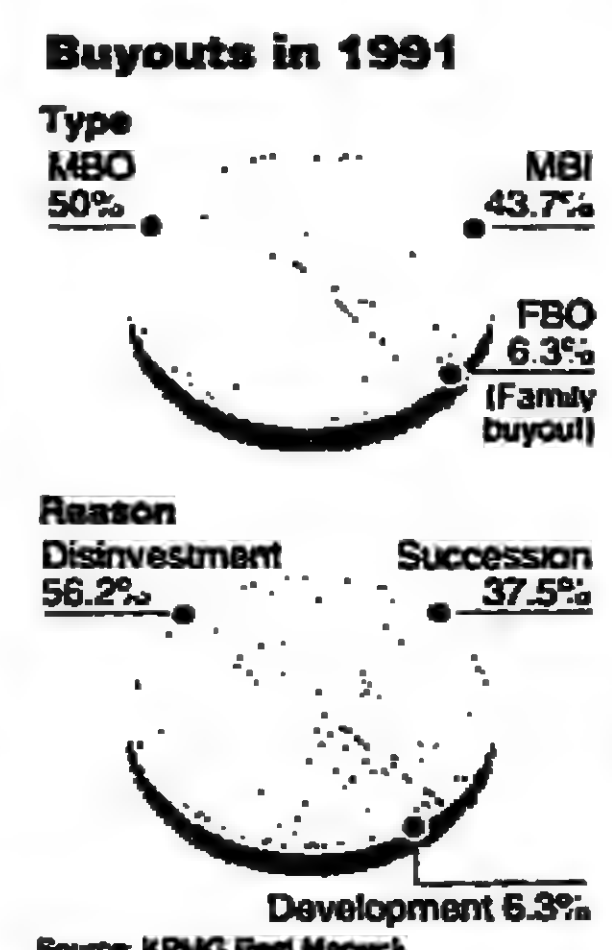
Schroder Associati has been involved in about 40 operations over the past four years, taking majority stakes in small and medium-sized companies with the aim of creating mini-industrial holdings. "Italian industry is characterised by one-man entrepreneurial businesses. There are rarely outside managers in family companies, so our deals are buy-ins rather than buy-outs," says Mr Colonna.

The trade sale offers the main exit route in Italy. "Nobody is enthusiastic about the 'borsa'," says Mr Bliss about the option of stock market quotation. Italy's is a small market lacking the public limited companies and large scale investment by institutional investors that typify those of New York and London.

Yet in spite of the absence of action over the past two years, investment bankers in Milan have not lost hope. Schroder Associati's Mr Colonna believes opportunities will arise next year from two developments in Italian industry.

First, it now seems that privatisation will become a reality. Most observers believe facts will soon follow the torrent of words that the subject has generated. "Management buy-outs will not happen directly, but will occur as a by-product when new owners of privatised companies start rationalising," says Mr Colonna.

"The second source of buy-out operations will be the corporate restructuring that major groups have started to put in motion. Until now the sale of subsidiaries has been seen as a sign of weakness.



That attitude is disappearing, and focusing on core businesses is seen as the right strategy," he says.

Mr Bliss also sees corporate restructuring as a source of buy-outs, although he believes that management will only have small equity stakes. "Succession problems in family companies will continue to provide good opportunities for

buy-out operations," he adds. In which sectors are the opportunities likely to occur? Most bankers agree that food is at the top of the list. "It will always be an interesting sector, even when the economy is in recession," says Mr Bliss.

High quality clothing will continue to produce opportunities. However, in spite of the density of Italian engineering, conditions are tough and prospective deals will be subject to extremely close scrutiny.

Invest is examining several potential operations, and Mr Belli believes that there will be no shortage of good opportunities over the next six months, as owners decide to pass the burden of management to others and as their asking prices start to fall.

If this happens, the patience of some investment banks should be rewarded after the lengthy period of scarcity. There have been many players on the field and at the sidelines of Italian buy-outs. It will be interesting to see which make the winning plays when the game really gets moving.

David Lane

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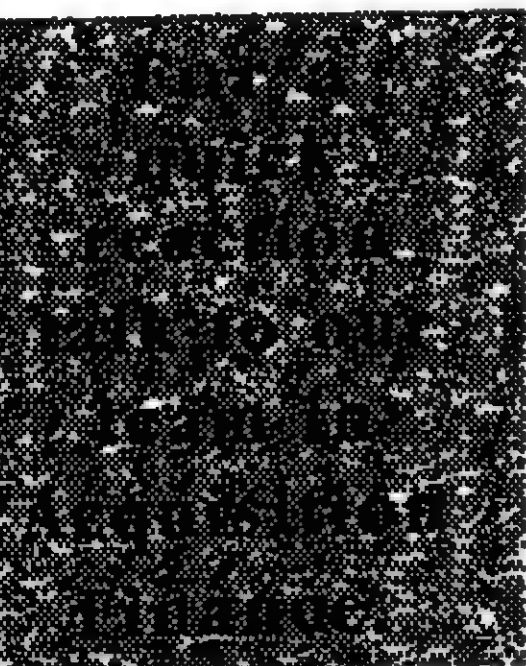
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## MANAGEMENT BUY-OUTS 10

## THE REGIONS

## Deals flow steadily

FIVE-and-a-half weeks ago, Interactive Media Services (IMS), a Leeds-based telephone information specialist, was bought by its management from the troubled Brent Walker Group in a £12.7m deal.

The Leeds office of 3i arranged the funding, bringing in Murray Johnstone and County NatWest Ventures jointly to buy £7m of equity.

Debt facilities came from the Bank of Scotland's Edinburgh office, a specialist in assessing risk for IMS's low asset, high cash-flow type of operation.

IMS is the largest UK user of British Telecom's premium rate network, providing sports information services using 0891 numbers.

Its most recent coup was to secure an exclusive three-year contract with the Test and County Cricket Board so people can dial in for the latest scores, making money for both IMS and the game.

The deal was typical of the 'While some people thought the buy-out was a late 1980s phenomenon, time is proving them wrong'

sort of buy-out activity under way in Britain's regions. A large group needed to diversify a sound but non-core business. Selling to the management made the most sense for continuity and professional expertise was on hand locally.

Crucially for the industrial and commercial infrastructure of the regions, the parent group's own problems did not automatically spell doom for a healthy subsidiary, as has happened in past recessions.

In the IMS case, Mr Bill Wilson, the chief executive, turned to Coopers & Lybrand in Leeds for financial advice and to Booth & Co, one of the Leeds "big five" commercial law firms which have made the regional capital Britain's strongest legal centre outside London.

Two weeks later, it was Manchester's turn, when its network of professionals arranged the management buy-out of Celmac, the UK's leading manufacturer of toilet seats, from Burmah Castrol, which had picked up the non-core business last year when it acquired Fosco.

Nearly all the same national firms of professionals were involved in Celmac as with IMS. However, it was their Manchester offices this time, with Barclays Development Capital investing rather than Murray Johnstone and the Manchester firm of Everheds Alexander Tatham doing the legal work.

As Mr Charles Richardson, a 3i main board director, puts it: "While some people thought the buy-out was a late 1980s

phenomenon, time is proving them wrong. There are some very good ones around now - especially in the regions, and at lower prices."

Mr Richardson is responsible for the seven 3i offices in northern England and Scotland. A drive on overheads has seen 3i close its small bureaux in Sheffield and Hull this year, to centre operations on Leeds. It is also moving to smaller, more economic offices in Edinburgh, putting its prestigious but over-large building in Charlotte Square on the market.

Mr Richardson says this is to save overheads in cost-conscious times, not because there is a shortage of work. Indeed, 3i's latest published figures show £86.5m invested in 81 management buy-outs in the Midlands, north and Scotland in the year to last April.

The north-west had most money - £18.5m - for 12 deals. The East Midlands used £16m in 17 deals and Scotland £14.5m in 24.

While most deals are relatively small compared with the highly-leveraged ones of the late 1980s, regional work is steady.

The past six months have even seen some larger deals. Standard Fireworks, based in West Yorkshire, was bought from Scottish Heritage Trust in a £27m deal; Swift Transport, in the East Midlands, was a £26m buy-out from LEP; in the north-west, Tulchan Textiles' management needed £15m to separate from a privately-owned leisurewear parent, and Taco Holdings was in a £10m deal with its parent, a polyethylene film manufacturer.

Ten years ago, the local networks of professionals who put these deals together did not exist, so neither did the deals. With local knowledge and contacts essential to good deal-making, the change from the recession of 1980-1982 is profound, enabling more businesses to survive and corporate ownership to spread.

Coopers & Lybrand's experience illustrates how fertile this ground is. In spite of his name, Mr Paul Southern is in charge of northern operations, which he says have grown at a rate of 70 per cent a year for seven years and now involve 37 fee-earners, plus supporting staff, in the north alone.

According to the latest report of the Centre for Management Buy-out Research at Nottingham University, the south-east's pre-eminence in buy-out markets is slipping. It accounted for only 36.9 per cent of buy-outs in the first half of this year, compared with 38.1 per cent in 1991.

The north-west has accounted for 10 per cent of the national total in the past 18 months, while the south-west's share rose from 5 per cent in

1990 and 1991 to 8.2 per cent in the six months to June this year. Meanwhile, the north-east and Cumbria achieved a record share of deals at 5.2 per cent of the national total for the six months.

Scottish and Yorkshire's shares dipped slightly in the six months, but this may reflect a slowdown in the time taken to do them. Mr Southern says the more cautious economic climate means it takes three or four times longer to close a deal now than in the late 1980s. Six or eight months is typical. Discussions with IMS started last year.

Raw numbers may well be a better indicator: the south-west recorded 19 buy-outs in the first half of 1992, after averaging 10 per half-year since the beginning of 1989.

By contrast, the bigger south-east regional economy saw more than 100 deals in the first half of 1991, but only 67 in

the second half. The figure picked up to 83 in six months to last July, but the directions of the two regional trends is obvious.

Mr Richardson of 3i says: "There is more caution all round, but there is a good enough flow of buy-out proposals for this to be our main activity today."

"Prices are well into single-figure multiples of earnings, compared with up to 14 four or five years ago, when earnings were also higher."

Four or five times earnings is the current price level quoted by other professionals, such as KPMG Peat Marwick's Manchester office.

Does this mean, therefore, that the higher-priced buy-outs of previous years have run into trouble in the recession because their managers paid too much? "Most have proved remarkably resilient," Mr Richardson says.

"One or two have failed, a few have been refinanced, but most have been able to continue. It proves the virtues of owner-management: they have an incentive to succeed. Also, good managers see things coming, adjust to problems, take difficult decisions early and plan their way through."

Capital providers say this latter point is a principal reason managers win their backing in the first place. Mr Southern says three other ingredients also have to be present: "Cash, cash and cash." These always improve recession-resistance.

Ian Hamilton Fazey

## PROFILE: FIFTH AVENUE

## Quick work needed

MR PAUL FABIAN divides the six days which followed the fateful afternoon of Friday September 4, 1992, into various parts: the surreal, the worst and the best.

This was the week he and Mr Brian Worth, through a new company they formed - Ideadirect, which would trade as Fifth Avenue - acquired the business and assets of Fifth Avenue Ltd. for an unspecified amount, from the receivers of the Berkertex Group.

Based just off London's Oxford Street, Fifth Avenue supplies retailers and mail order houses such as Littlewoods, C&A, Etam, British Home Stores and Burtons, mainly with ladies garments.

With a turnover of £13.6m and a profit of £235,000 in 1991-2, Fifth Avenue Ltd represented approximately 30 per cent of the activities of its parent, Berkertex Group.

There was little synergy between Berkertex and Fifth Avenue Ltd. The former made dresses, the latter made separates and each operated virtually independently of the other.

It therefore came as no surprise when, in November 1991, Berkertex asked Mr Fabian

and Mr Worth if they would like to conduct a management buy-out.

A price was agreed on and Fifth Avenue Ltd's directors put together a deal which involved financial backing from the Bank of Ireland and 3i. At the last minute Berkertex Group decided it had undervalued the business and asked for an extra £500,000 more or, as Mr Fabian puts it, "a golden wave goodbye".

The deal fell through. Disappointed as he was, Mr Fabian says: "It did give us a chance to put our toes in the water, go through all the necessary budgeting, cash-flows and presentations to financial institutions."

Fifth Avenue Ltd went on to have a successful year of trading. By September 1992, it had accrued £2.2m in its account at the Bank of Scotland and owed creditors around £650,000.

In the meantime, it was becoming increasingly apparent to Fifth Avenue Ltd, that Berkertex was experiencing trading difficulties. "We could see they were in trouble," says Mr Fabian, "but the problem was determining when they would become insolvent."

As the situation deteriorated, Mr Fabian got in touch

with Blick Rothenberg (the accountants which had assisted with the failed 1991 MBO) and 3i, to warn them that their services might be needed again.

At midday on Friday, September 4 Mr Fabian was contacted by the Bank of Scotland. He was told the directors of Berkertex Group had informed the bank that they were unable to continue to trade. The bank was drawing in its loans and overdraft facilities. Touche Ross had been appointed as receivers.

Mr Fabian was summoned to an immediate meeting with the bank at which Fifth Avenue Ltd, under its joint guarantee responsibility for the overall debt of the group, was asked to deposit £12.5m to cover the debt. "It became surreal," recalls Mr Fabian. "I told them they could have the £2.2m factored in its account at the Bank of Scotland but that I didn't happen to have the other £10.3m on me."

Mr Fabian and his co-director went into action. They contacted Blick Rothenberg and 3i, then made an appointment to see the receiver.

On Saturday, the receiver explained that he had a duty to sell the business to the per-



Paul Fabian



Brian Worth

son who came up with the best offer. Sunday was spent with Blick Rothenberg working on a business plan.

Monday morning, Mr Fabian had a meeting with Barclays Bank, Langham Place to ask for a £500,000 overdraft facility. The afternoon was spent in negotiations with the receiver and contacting solicitors to put the MBO paperwork in place.

On Tuesday, the directors organised funding. On Wednesday morning, Barclays Bank confirmed the overdraft facility and negotiations continued with the receivers. By Thursday afternoon, the MBO purchase from the receiver was complete. Ideadirect had been formed.

Mr Worth and Mr Fabian hold 77.5 per cent of the shares in equal quantities between them, while 3i holds

the rest. Funding for the directors' part of the business came from a large, short-term loan from a supplier, personal savings, guarantees and loans. "That was the worst part," says Mr Fabian. "Having to give personal guarantees and realising what that commitment meant."

Mr Fabian and his partner paid substantially less for the business than the 1991 asking price. "It was a forced sale and you've got all the risks inherent in purchasing from the receiver," he explains. "There are no warranties."

Among many issues was that of whether suppliers and customers, affected by the receivership of Fifth Avenue Ltd, would want to trade with Ideadirect. "We were desperately lucky," says Mr Fabian. "We have a history of trust and mutual respect built up over 18 years of trading and it served us well."

The MBO was completed as quickly as possible for sound reasons. "It was a question of confidence; given a further week we thought the business would disappear," he explains.

Although Ideadirect is not liable for the debts of Fifth Avenue Ltd, Mr Fabian and Mr Worth are making agreed extra payments to suppliers. "We feel our reputation is at stake," explains Mr Fabian. Employees have also been paid wages overdue from the period of collapse.

Mr Fabian has no qualms about conducting a MBO in the middle of a recession. "We're trading well with turnover 10 per cent up on last year, we've got our costs under control and I'm confident about the future," he says.

Eight weeks on, Mr Fabian admits he still has not quite come down from the high he experienced at the end of the MBO.

"The best part," he says, "was coming back to the office after it had all gone through. Knowing we'd saved everyone's job and finding the staff had put on a surprise party."

Hester Thomas

## THE LAWYERS

## Leading the blind

MBO LAWYERS think of themselves as businessmen and women first and lawyers second.

Often their key role is to supervise the deal. "There's a huge amount of transaction management," says Allen & Overy's Mr Anthony Keal.

"Particularly in multi-jurisdictional MBOs." According to Mr John Kitching from Lovell White Durrant, this is particularly true when acting for the finance providers: "The institutions are looking for lawyers to project manage a transaction."

That means the legal advisers are not asked simply to handle the formal technicalities. "The client would be disappointed if you just gave legal advice," says Mr Geoffrey Green from Ashurst Morris Crisp.

"You're also asked to be a constructive problem solver and to give a much more rounded, judgmental view of the transaction."

It is an approach shared by others, including Mr Derham O'Neil of Clifford Chance: "Lawyers are increasingly involved at the strategic level and are used as a commercial sounding board. For example, we're sometimes asked about the public relations effects of a deal."

Buy-outs are now fewer and smaller, so an outsider would assume that competition between leading law firms has heated up considerably. MBO lawyers are split on the issue, however.

Mr James Davis from Freshfields thinks not. "Although occasionally financiers will go to a new law firm as a trusted second string - particularly when there is a conflict of interest - they're more concerned with quality and value for money than nitpicking on price."

Mr Green from Ashurst Morris Crisp would agree with the insistence on quality but is certain that "competition between lawyers is much fiercer than, say, a year ago".

It is a view shared by his counterparts in other firms. Mr Anthony Lewis from Cameron Markby Hewitt says: "Increasingly, venture capitalists won't take all their work to just one law firm." Stephen Barnard from Herbert Smith adds: "Clients are now much more likely to move around and people are working harder to keep the client happier."

If the financiers are staying with their established lawyers for the larger deals, it may be that they are more cautious because of the economically tight conditions. Mr Jonathan Blake from S J Berwin believes that "institutions like to deal with lawyers they feel comfortable with and who they know can handle the technical issues".

As Mr Peter Turnbull from Macfarlanes points out, "if you're the person buying in the external legal services, you can't go wrong instructing a recognised name. Someone who does the job more cheaply won't do it better."

Perhaps the greatest benefit experienced practitioners can offer clients is the saving of time. Lawyers well versed in MBOs know which are the main points in the transaction and can save time, money and their clients' patience by not wrangling over minor details.

However, the senior regional

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S J Berwin	10	12	22
Dickson Minto	8	13	21
Atop Wilkinson	5	14	19
Everheds Wells & Find	5	16	21
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Cameron Markby Hewitt	7	5	12
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Flender	2	3	5
Simpsons & Simmons	1	5	6
Taylor Joynton Garrett	1	4	5
Dundas & Wilson	1	4	5
Kimbell & Co	1	4	5

McKeirne	0	15	15
Berwin Leighton	0	2	2
Gouldens	0	2	2
Thompson Goddard	0	2	2
Tinnes Sabin	0	2	2
Others	88	130	218
None/not known (exclusion)	44	9	53

Qualifications in £10 million plus clients listed in key category

Source: KPMG Corporate Finance

firms have not - as was once predicted - broken into the top ranks of MBO legal advisers. Many believe this is because the larger London firms have far greater resources and experience than their country cousins who are best at doing small deals more cheaply than their classier City brethren.

Lovell's Mr Kitching disagrees. "Law firms can break into this market. It's the relationship with the finance providers which count and in many cases the regional firms have built and continue to build those relationships."

So does it matter which of the top firms you go to? It is generally agreed that the leading firms can handle the technical issues quite competently. But as Mr David Eccles from Freshfields points out, "there are distinct differences in terms of the approach and the culture. So it's a question of how the service is delivered by a particular firm."

That is all very well for the financiers who have long-established connections with a wide range of suitable law firms. But for the management team, their first and only MBO choice of a lawyer is more difficult.

"The venture capitalists are keen to advise management on which firm to use as lack of expertise slows the whole process down," says Mr Ian Sears from Clifford Chance.

"The management will have their accountants sitting beside them and the accountants will know the firm and who's worth going to," says Mr Lewis from Cameron Markby Hewitt. "In the end, personal chemistry is often the reason why a management team chooses a particular law firm."

Legal fees are a critical issue. "If the deal hits the buffers, then we would expect to share the financial burden with the banks by charging at a lower rate," says Mr Keal from Allen & Overy. The rigorous control of expenditure is confirmed by Mr Barnard from Herbert Smith: "People are very tight on fees these days and you have to justify your charges every step of the way."

Often great pressure is put on a law firm to operate on a flexible fee basis. Rarely will a leading London practice agree to work on a strict "no deal, no pay" arrangement but more flexible arrangements are possible. For instance, initial discussions and certain categories of preliminary work may well be carried out for no - or a heavily reduced - fee.

Mr John Benson from Lovell White Durrant says: "It is easier for me to adopt a more flexible approach to billing for an established client than for a complete newcomer. It also gives the client less incentive to shop around and demonstrates that we're being sensitive to the transaction."

In an economically depressed market, lawyers are clearly aware as everyone else is of the limitations of one-off deals.

Max Findlay

## Some MBOs are more risky than others



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## MANAGEMENT BUY-OUTS 11

The role of accountants in MBOs has come into question

## A conflict of interests

CONFLICT and economic uncertainty are vexing many of the accountancy firms involved in the buy-out market of the early 1990s.

Most remain bullish about prospects for business. But they are having to adapt their cultures to match new demands on their services.

Mr Richard Mead, national director of corporate finance at Ernst & Young, says: "It's been a very different market recently and very different from two years ago. But we have had a relatively good flow of business, particularly in our regional offices."

Mr Andy Pollock, senior partner of Rees Pollock, a small firm started just over two years ago by accountants from Ernst & Young, is optimistic. "There is money around," he says. "As interest rates fall, there will be a better rate of return."

What does continue is what he calls the "lunchtime entrepreneurs" who say they are interested in MBOs. He says he can screen out those who will not make it when they start asking about the hours involved, their salary and whether they will be able to keep the company car.

For others, the volume of business has slowed to some degree, in part because deals are taking longer to come to fruition. The difficulties have been particularly intense for larger prospective MBOs.

The main problem, according to Mr Mead, is the paucity of senior debt. Banks which need to syndicate loans for the larger MBOs have lacked the confidence to do so.

"We are much busier than we were three or four years ago," says Mr Chris Beresford, head of the MBO unit at KPMG Peat Marwick. "But there is a

degree of nervousness around." He says banks realise they are more vulnerable after some of the highly leveraged deals of the late 1980s failed. They also face the uncertainty of the UK economy.

The accountants' role in MBOs needs to be kept in perspective. Mr Beresford pours scorn on those firms claiming to hold sway in deals. "It's not realistic," he says. "You can only say you have led a deal if you have structured, financed and negotiated its terms."

Mr Beresford estimates that his firm spends about three times as many hours on investigation work as on advisory work for management teams.

On the one hand, management advisory work can be far more commercially attractive, he says. On the other, a good relationship needs to be maintained with the finance houses by bringing them deals, to ensure that they turn to the firm to pass on due diligence work. That means bringing the teams to finance institutions.

One aspect of the work which can raise tensions with other, more conservative parts of the accountancy firms is the application of contingency fees, geared around payment only if the buy-out is successful.

"We prefer not to have contingency fees," says Mr Beresford. "We are still very old-fashioned. We think of working for an hour and getting paid for an hour. But we have got used to the idea, with a premium for success and a modest fee for failure."

A second area that is causing increasing tensions is the possibility of conflict of interest. Mr Pollock's firm tries to generate most work from finance houses such as 3i and AIB Capital Markets. "Can you be truly independent if you introduce MBOs?" he says. "It's a very grey area. On the other hand,

you need to bring them in if you want the finance houses to bring deals to you. We don't want to be cut off."

He asks whether an accountant can be objective. In the extreme, they may strike a bargain with financiers to whom they have made the introduction but from whom they are looking for other business.

They could be carrying out due diligence on numbers they have audited and on projections they may have prepared. They may ultimately hope to gain the audit of the numbers once the deal is done.

Mr Douglas Lambie, chief executive of the Business Exchange, a network of professionals for buying and selling businesses for up to about £20m, says he will not accept the accountants trying to introduce potential deals to levy contingency fees, or for the company's auditor to carry out advisory work.

"Contingency fees are not appropriate," he says. "When the potential fees are large, the pressure is enormous to get the deal done whether it is for the best or not."

With regard to the auditor, he sees it as "improper" that a firm supposedly acting in the best interests of the shareholders should be able to support a buy-out.

Mr Beresford admits that some finance houses not happy with the accountants bringing them the deal and also conducting the due diligence. But he says: "You have to be grown up about it. I would rather it was a friendly guy from my own firm who found an error rather than someone from a rival firm. If there is a problem it is in everyone's interests that it is unearthed."

Andrew Jack

## PROFILE: POOLE POTTERIES

## Second time lucky

IT WAS second time lucky for Mr Peter Mills when his buy-in/buy-out (bimbo) of Poole Pottery in Dorset, succeeded in October this year.

The £3.7m deal (including investment capital) which installed Mr Mills as the new managing director of the 118-year-old firm, was the realisation of a thwarted ambition.

He was the predator when two years previously he tried to buy the company from Pilkington Tiles, a subsidiary of BTR, for Dartington Crystal, the tableware and giftware company of which he was then sales and marketing director.

In 1990 Dartington had been looking for an acquisition that would give it a retailing arm for the sale of seconds to tourists. The bid failed, because Dartington couldn't raise the then well-over £4m wanted for Poole Pottery.

Rockware Group - the glass and packaging company which owns Dartington - made the mistake of turning to BTR for help in a cash-and-notes deal, and was itself promptly swallowed by BTR.

The equity funds were raised through Murray Johnstone, County NatWest Ventures, and debt from Lloyds bank locally. They were advised by west country investment bank, Rowan Dartington. It helped that the price had dropped to £3.7m. (A large part of the price was for the site which had lost value in a depressed property market.)

Murray Johnstone took a major share of the equity, but the deal took the form of a ratcheted arrangement whereby the management share of equity increases if the venture performs well. The debt-to-equity ratio was around a modest 2:1, with only £1m of senior debt put in on day one.

The buy-out team consisted of Mr Peter Mills, who left Dartington in 1990 and Mr Peter Hennessy, also formerly of Dartington Crystal. They became managing director and finance director respectively. The rest of the team consisted of Mr Peter Davis, who became operations director, and Mr David Walton and Mr Tony Holdsworth - both of Poole Pottery - who became produc-



Pots in the making: Poole Pottery plans to increase its workforce by 30 per cent over the next four years

tion and sales directors respectively. Mr Roland Denning, Sock Shop chairman, became non-executive chairman.

The negotiations over the bimbo took a protracted nine months. "It was an anxious time. As to be expected from a Scottish finance house, they went over every aspect of the business with a fine tooth

**The staff response has been positive and already more flexible working hours have been introduced**

comb," says Mr Mills. "But they were extremely supportive once they had decided to go ahead."

"For example, they put up more money in equity than originally intended, so that the pottery is very well structured financially."

Poole is one of Britain's best-known pottery firms. It was set up in 1873 and, in its premises at The Quay on the seafront at Poole, it is an important tourist attraction, drawing 750,000 people a year.

The pottery's hand-made tableware of the 1920s and 1930s, with their striking floral and geometric Art Deco patterns, have become collector's items, selling at sale houses for as much as £500 an item.

However, in the past decade the pottery had begun to show the result of neglect in the design department and a general lack of investment.

"It seemed an ideal candidate for a buy-out. There were obvious similarities with Dartington's, where I was then working as sales and marketing director."

"Also, the pottery had been suffering from neglect - its potential unexploited, especially in the tourism side of the business," says Mr Mills. The new team plans to re-organise the tourist aspect at The Quay and to re-introduce the once-popular tours of the workplace.

"The root of the problem appeared to be that Poole Pottery was not part of BTR's core investment strategy. It was acquired almost inadvertently by BTR, whose target was Pilkington Tiles; the pottery was just part of the Pilkington parcel," says Mr Mills.

In the three or four years before the bimbo, Poole Pottery made little or no profit. "Performance was flat and the real results easily got lost in a big group's figures," says Mr Mills. The new team hopes to build on Poole's brand name - it consistently comes in the top three in public recognition surveys of the pottery field.

Mr Mills plans to increase manufacturing capability and improve the marketing sides. "The UK trade side is solid and just needs to be developed further. Exports, which make up 40 per cent of trade sales, also have massive potential which has never been exploited. It just needs effort."

The staff response to the bimbo has been positive and already more flexible working hours have been introduced. This may be partly due to the fact that, although there is the possibility of some rationalisation, Poole Pottery plans to increase its workforce by 30 per cent over the next four years.

Staff reaction to a return to private ownership has been favourable, according to Mr Mills. Of the 190 people employed, at least 50 have been with the company for more than 20 years, he says.

Mr Mills claims that this buy-out is to be no quick in-and-out operation. "We hope to see Poole Pottery in the long run as the core to a group of brand names in the same fields, so once we have the company growing again, we'll quite possibly be looking for acquisitions."

William  
Saunderson-Meyer

## PROFILE: THE GAYMER GROUP

## Discussions focus on price

NEGOTIATING a sale price with a vendor who is potentially your biggest customer is no easy task. It is no surprise, therefore, that Candover Investments' buy-out of Vine Products and Whiteways, Showers and Warninks, the UK wines, spirits and soft drinks suppliers, from Allied-Lyons required lengthy discussions.

"It meant making sure you could see their point of view and where possible, within reason, trying to accommodate it. And hopefully they were doing the same for us," says Mr Stephen Curran of Candover Investments, which backed the management team led by Mr John Wilkinson.

Negotiations opened in July 1991 but the deal was not signed until February 1992. Mr Curran says: "We were in a series of protracted negotia-

tions. "Price was the main sticking point, but our investigations took time too."

VPW, Showers and Warninks businesses produce and market a wide range of alcoholic drinks, including Gaymer's Old English, Copperhead and Babychem.

**Advisory work is profitable, but good relationships must be kept with finance houses by bringing them deals**

The new company will be named The Gaymer Group Europe and Mr Mike Dowdell, previously a main board director of Unilever, has been appointed chairman. VPW and Showers are based mainly near Bristol and also at Shepton Mallet, Somerset. Warninks' main facility is in Holland. The combined companies have 1,300 employees.

In the 13 months to February 1991, combined turnover of the three companies was £178m with profit before interest and tax of £23m. The picture for this year is confused by a change of year end. Mr Curran believes profits will be lower but that the new company is doing at least as well as was predicted when the deal was struck.

It was Allied-Lyons who took its time at first. It had to evaluate all offers and only settled on the managers at the beginning of December. Candover believes this is because their offer was for both companies.

Candover was attracted to the buy-out because of the strength of the management team. "They appeared competent, hardworking, skilled and

sensitive. They worked together, knew their business and they were clearly keen to do the buy-out," says Mr Curran.

He says the team's energetic enthusiasm for the deal showed they recognised that a buy-out demands a great deal of time as well as an opportunity.

Negotiations - suspended during the Christmas period - initially centred on price. "Allied-Lyons wanted between £150m and £160m but we settled on £140m in the end," says Mr Curran. Allied-Lyons received £11m in cash and £28m in vendor loans.

Equity for the buy-out is being provided by institutions investing through the Candover 1989 Fund, and CINVen, Legal & General Ventures and Advent International.

Bank term debt of £33m and working capital facilities of up to £35m are being arranged through Barclays Bank and National Westminster Bank and co-lead underwritten by Barclays, NatWest and Bank of Scotland. Mezzanine finance of £15m is being provided by Mithras Investment Trust and Legal & General Ventures.

These borrowings are necessary since the company tends to produce stock in the summer which is mainly sold over the Christmas and New Year period.

Once the price was agreed Candover had to conduct a thorough investigation of the company.

"We had to make sure the sales organisations would blend well together, find out whether there were any potential economies of scale in manufacture and ensure that the arrangements with the vendor who is our best customer were satisfactory to both parties," Mr Curran says.

"Overall the investigations revealed that the company had been doing well, but recently not quite so well. We had to satisfy ourselves that dip in profits was a temporary one."

Candover also had to satisfy its own board of directors that it was worth investing in some of the lesser known brands such as Camelot (a form of perry), Festival Vat (a cider) and Zapple (a specialty drink). The Gaymer Group Europe's branded portfolio is targeted at the C1, C2 and D socio-economic groups.

Mr Wilkinson, managing director of the new company, admits some of the brands have not had top priority in recent years. "We have launched the Gaymer Group Europe this year in a major marketing initiative. We are confident that the planned investment in the brands, plant and people will create a highly competitive, independent European drinks group."

Catherine Milton

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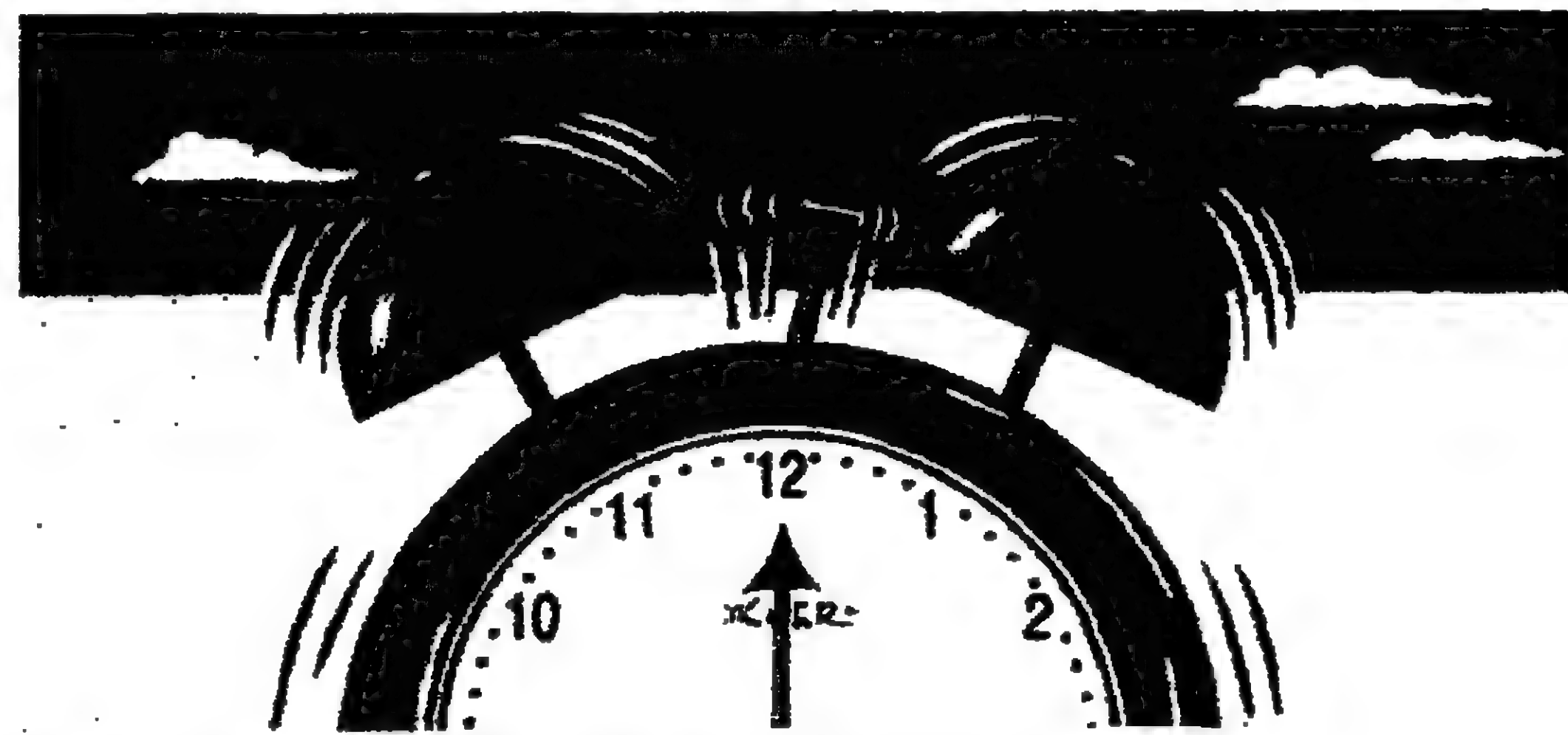


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# European Finance and Investment: Belgium

## SECTION IV

Thursday December 3 1992

Business wants to attract outside investment and yet retain a degree of national management autonomy. This is a perennial dilemma for Belgium, which is certain to be at the core of the European single market, writes Andrew Hill

## Keeping in the fast lane

**B**ELGIUM is inexorably moving towards economic and monetary union with its neighbours - Maastricht treaty or no Maastricht treaty.

EC-wide approval of Maastricht would of course profit a small country like Belgium, but if ratification cannot be achieved and a two-speed economic Europe is the only alternative, Mr Philippe Maystadt, the country's finance minister, says Belgium will be in the fast lane.

"We export 75 per cent [of total exports] to our partners in the European Community, and 60 per cent towards our three direct neighbours," he says. "It is essential for Belgium to be in the same group as Germany, France and the Netherlands."

It was Mr Maystadt who decided to take the Belgian franc to the D-Mark in June 1990, a policy acclaimed by both the IMF and OECD in recent reports on the Belgian economy.

"In a way, we have already lost our sovereignty, at least in the monetary field," he admits. "We see monetary union as a way to recover collectively that sovereignty. At least in a European central bank we would have something to say. Today [when the Bundesbank makes monetary decisions which affect the Belgian economy] we have no say."

With or without the treaty, Mr Maystadt says Belgium must continue to aim for the EMU criteria - in particular, the strict requirement to bring the country's large budget deficit down to 3 per cent of gross national product by 1996.

For the long-term outside investor in Belgium, such determination must be good news. It means that, geographically and politically, Belgium

is certain to be at the core of the European single market.

Recent events have shown the value of this strategy - particularly links with the D-Mark. Mr Marcel Cockaerts, chairman of Kredietbank, one of Belgium's three largest banks, points out that the Belgian franc stayed firm amid September's European currency turmoil, and at one point was even stronger than the D-Mark.

"To step back from [the policy of shadowing the D-Mark] would mean the loss of our credibility for the next 100 years," he warns.

However, in spite of this stable foundation, the government must overcome a number of short-term domestic hurdles before it can rest.

The centre-left coalition - formed in March - has introduced rigorous 1993 budget measures aimed at bringing the budget deficit down to 5.2 per cent of GNP by the end of next year. That compares with 6.3 per cent for 1991 and a forecast 5.9 per cent for the end of this year.

But whether the government has the political clout to keep to this line largely depends on the parallel attempt to push through long-awaited constitutional reform.

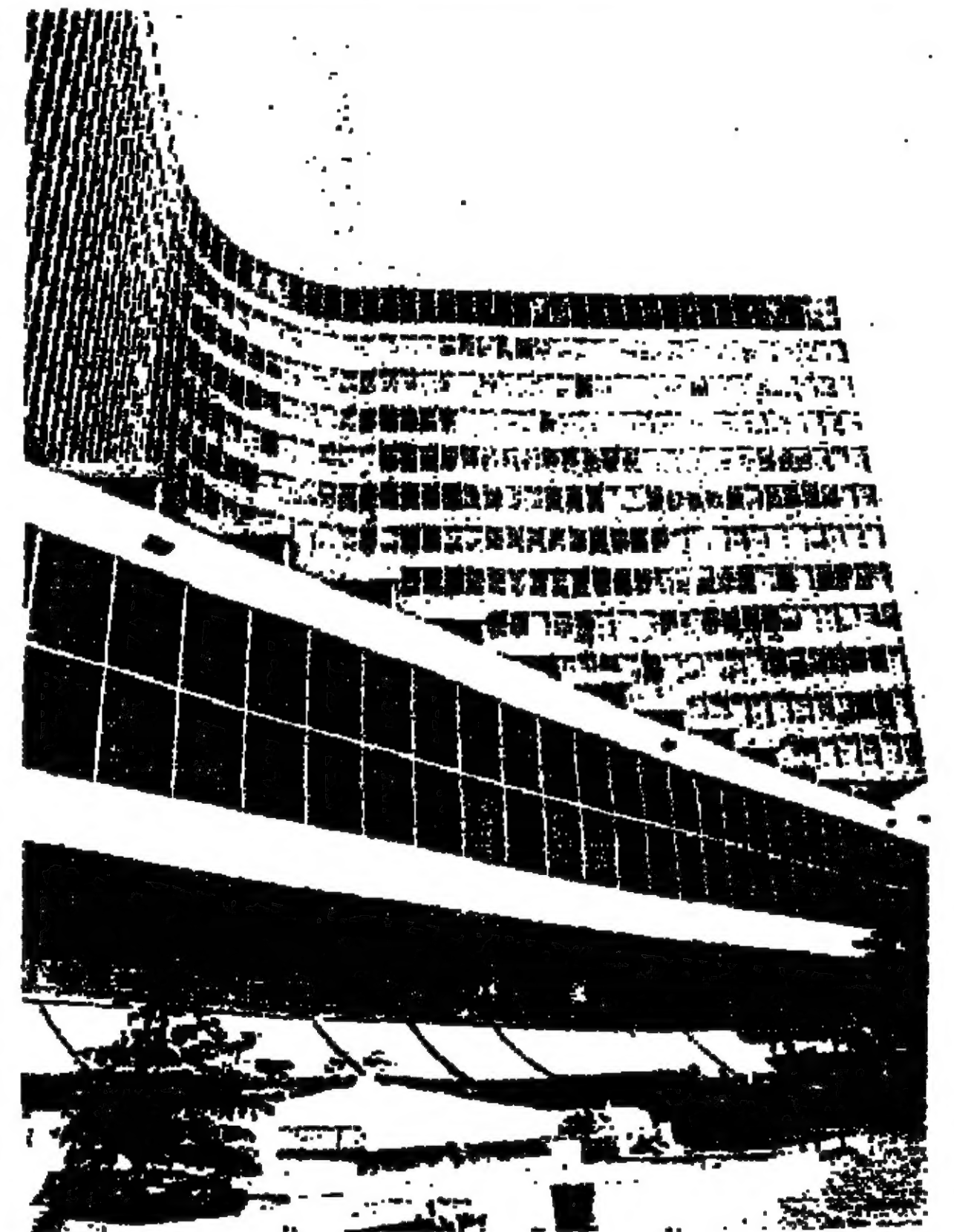
This package would devolve more powers, including financial responsibilities, to Belgium's regions and linguistic communities. The latest signs are that the government will be able to win the two-thirds majority it requires in parliament for such reform, albeit narrowly. Approval would immeasurably strengthen the government - and its economic policy.

Where does that leave the humble investor or business in Belgium?

Analysts say the political



The Bourse (Stock Exchange) in Brussels (left) and, by way of contrast, the ultra-modern Centre de la Monnaie, where the first Town Mini was established in 1420



(photographs by Ray Roberts)

turnout - as always in Belgium - has made little difference to business. Most Belgian companies remain in the doldrums, bedeviled by the same economic downturn that is hampering their counterparts in the rest of Europe.

Few forecasters predict GNP growth of more than 1.6 per cent this year, and 2 per cent next year. The average forecast is more like 1.4 or 1.5 per cent for 1992. Since 1990, annual investment growth has slowed down from 12 or 13 per cent to less than 3 per cent.

Mr Jan Herremans, director of the economic department at the Fédération des Entreprises de Belgique (FEB), says that orders from overseas are very low and there is little sign of improvement this year or in the first half of 1993.

Domestically, according to a recent report from Namur Assurances du Crédit, Belgian companies are suffering from the diminishing profitability of capital stock, high interest rates and the general drop in profits. As a result, the Belgian credit insurer expects bankruptcies this year to exceed 5,000 for the first time. Company failures, Namur says, have increased by 26.7 per cent against 1991 in the third quarter alone.

The gloom is reflected in the stock market, where most industrial stocks which dominate the Brussels bourse are

still bumping along the bottom of their cycle.

Exceptions include the Belgian banks, buoyed up by takeover news and ripe for rationalisation. Analysts admit it is not clear how such changes will come about. The social and financial cost of a merger between the big players - each of which has a branch on every Belgian high street - would be too great to countenance.

**N**onetheless, it is obvious that banks which continue to concentrate on the Belgian market are not going to prosper once internal EC frontiers come down.

One possible route is takeover from outside Belgium, or co-operation with other financial institutions. For example, Banque Bruxelles Lambert (BBL), another of the Belgian big three banks, has been courted recently by Internationale Nederlanden Groep, the Dutch banking and insurance group. A bid and co-operation in the lucrative "bancaassurantie" field was under consideration.

BBL's announcement 10 days ago that the bid would not take place has spared Belgian business further heart-searching about one of the country's perennial dilemmas: how to attract outside investment and yet ensure that Belgian compa-

nies retain a certain national management autonomy.

Mr Cockaerts of Kredietbank, for example, says he would consider it "an impoverishment of the whole of Belgium" if too many great Belgian names were lost to foreign buyers.

Abandonment of the ING/BBL deal will not kill this highly political issue. It is bound to come to a head when the government - bent on privatisation - announces the first sales of state-owned enterprises before Christmas.

In the context of the long-standing tension between French- and Flemish-speakers in Belgium, this is not just a question of national pride. For example, the government of Flemish-speaking Flanders is already expressing its concern that the state might favour sales to francophone buyers.

In reality, however, there is little that can be done to prevent foreigners buying into

Belgium - and indeed there is little that the government wants to do.

Belgian business can only lament that after the war, when other countries were building up national champions through restrictive share structures and general protectionism, a job-starved Belgium was opening its borders and boardrooms to all-comers.

It was perhaps a case, agrees Mr Jean Peterbroeck, the distinguished broker who heads the Brussels bourse, of too much free trade, too soon.

More optimistically, however, it is now an indication of the continuing attractiveness of Belgium to foreign investors, in spite of the downturn.

The government has done its best to maintain the incentive for inward investment, by pursuing its successful "co-ordination centres" initiative - tax breaks for multinationals which establish administrative headquarters in Belgium.

At the same time, Belgium's regions - Flanders, French-speaking Wallonia and Brussels itself - play an important role in attracting investment, as befits a country which will formally become a federal state if constitutional reform is approved.

Mr Georges Walckiers, who heads BBL's corporate finance department, warns potential investors against reading too much into the unduly gloomy picture of a Belgium saddled with large debts and riven by regional strife.

If Belgians were asked to be frank about their country's attractions, Mr Walckiers suggests they might quote Talleyrand.

Asked what he thought of himself, the French statesman replied: "Très peu quand je me considère, beaucoup quand je me compare" - not much when I consider myself, but a great deal when I compare myself to others.

The government has moved fast on privatisation - the main reason is money. Plus: Are foreign predators putting the "ancrage Belge" under attack? How international companies can benefit from tax privileges

Page 2

What have last year's government reforms done for the markets? A progress report. Plus: new responsibilities for the regions.

Page 3

Andrew Hill profiles the finance minister

## Maystadt faces the greatest challenge of his career

**DURING AN** almost uninterrupted 13-year period in government, Mr Philippe Maystadt has headed each of Belgium's three money ministries - budget, economic affairs and, since 1983, the top job of finance.

In 1990, aged only 43 and just two years into his term in office, he was named Finance Minister of the Year by Euromoney magazine. The award - which he characteristically described at the time as an accolade for the ministry team, not for him alone - was based on the series of financial reforms which he had helped put in place.

He is justifiably proud of those achievements. In particular, he claims to have changed "the rules of the game" for takeovers, to prevent a repeat of the clandestine stake-building through which Mr Carlo De Benedetti nearly gained control of Société Générale de Belgique, Belgium's largest holding company, five years ago.

Now that the smoke has cleared away from Belgium's "big bang", it is obvious that, in some cases, the noise was greater than the actual changes wrought. Recession has held back some of Belgium's financial markets. In particular, the Brussels stock exchange does not yet compete with larger European markets in the way in which Mr Maystadt might have hoped, and the embryonic futures and options exchange has not yet taken off.

On the other hand, Mr Maystadt's policy of linking Belgium's currency firmly to the Deutsche Mark has certainly paid off, both in terms of general investor confidence, and in the government bond market, where, helped by parallel



Philippe Maystadt: "We have no choice: we have to go on with the convergence programme" (photograph by Terry Kirk)

reforms of the market itself, Mr Maystadt has had no difficulty in refunding the government deficit in successive years.

Now, however, he faces the greatest challenges of his career, at home and abroad. Within Belgium, as a member of Mr Jean-Luc Dehaene's shaky centre-left coalition, he must convince fellow citizens that a stringent economic policy is essential to their

future well-being. At the same time, he must seek ways of reviving the run-down industrial areas of Belgium - including Charleroi, where he was brought up - and making them attractive to outside investors.

As a francophone Social Christian, Mr Maystadt speaks with the same political voice as Mr Dehaene, a Flemish Christian Democrat. If the government falls, or goes soft

under domestic political pressure, then the risk is that the budget deficit will "snowball" out of control, and Belgium will miss the first train to European monetary union (Emu).

In fact, Belgium's European and domestic economic ambitions are identical. Mr Maystadt believes it is "essential" that his country is in the same Emu group as the Netherlands, France and Germany. In addition, the Emu target figure of a budget deficit of 3 per cent of gross domestic product "corresponds exactly to what is needed in Belgium to get rid of the snowball effect". In that sense, says Mr Maystadt, the Maastricht treaty is only "one more good reason" for reducing the country's budget deficit.

Parliamentary approval of the parallel constitutional reform programme - which devolves more powers to Belgium's regions and language communities - will strengthen Mr Maystadt's hand. The government has already had to revise its original 1993 budget plans - criticised as too soft by economic analysts - to take account of slipping growth forecasts.

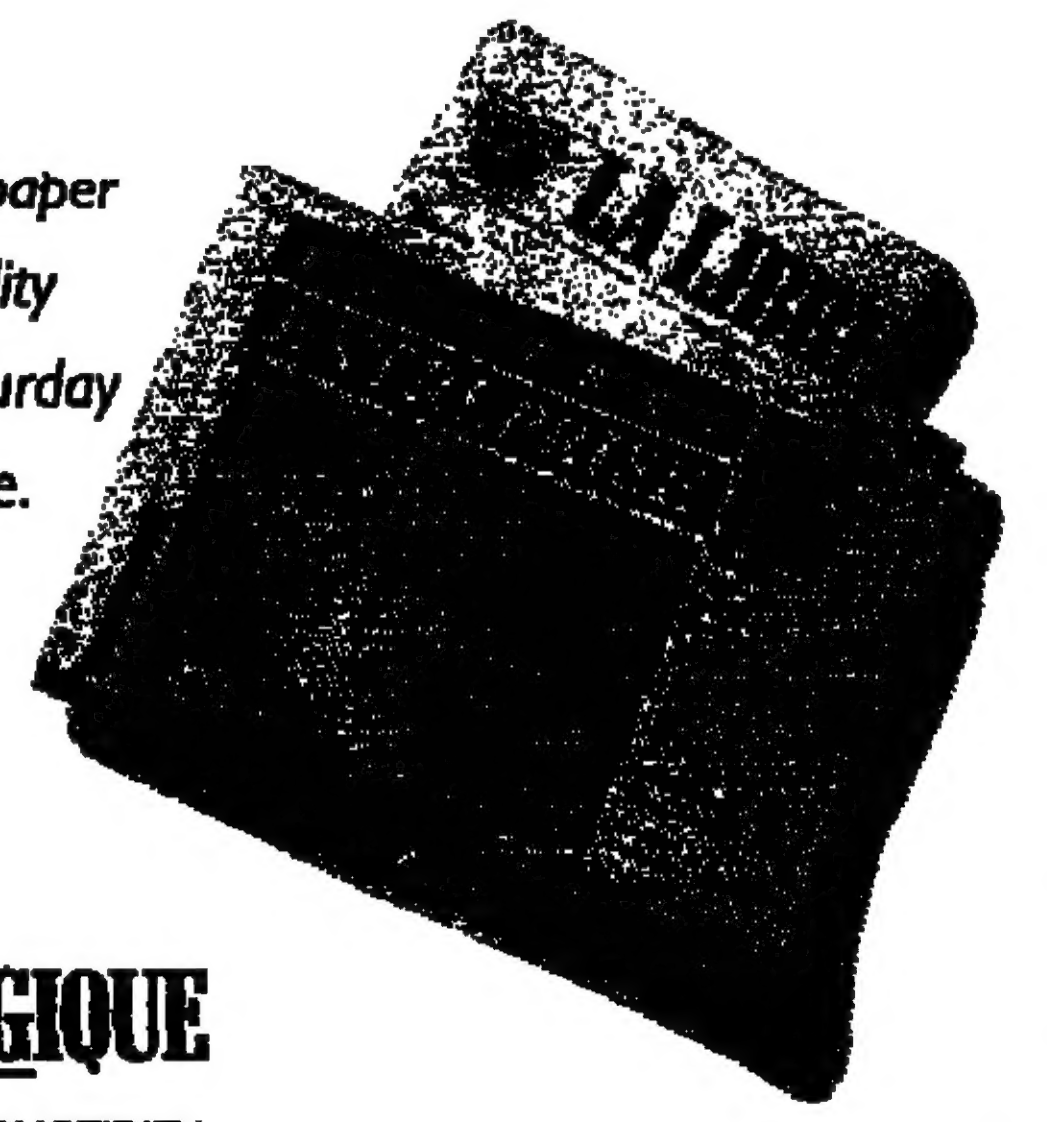
According to Mr Maystadt, who fronts his country's economic policy in the EC, those adjustments have been welcomed by Belgium's Community partners. Criticised in the past for a lack of political courage, he is sure that the country can make it into the promised land of monetary union.

"We really have no choice: we have to go on with the convergence programme even if the Maastricht treaty is not ratified, because that is the only way to cut the snowball effect definitively. We are determined to go on," he says.

# Belgian businessmen just can't wait for the week-ends.

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## EUROPEAN FINANCE AND INVESTMENT: BELGIUM 2

The privatisation bandwagon has finally arrived, reports Andrew Hill

## State asset sales may ease deficit

**M**ERCHANT banks and brokers are licking their lips, potential buyers are readying their cheque-books, and politicians are sharpening their ideological oratory: the privatisation bandwagon has finally rolled into Brussels.

Its arrival is not a surprise – the last government passed a law in March 1991 permitting sales of public assets – but it is ahead of the original schedule and far more heavily laden than most observers expected.

A year ago, privatisation was hardly discussed in political circles. That was natural. Belgium's political establishment, still reeling from a confused protest vote in the November general election, had better things to think about. Even in March, when Hill Samuel, the British merchant bank, and Brussels-based Petercam Securities produced a valuation of state enterprises, the chances of a sell-off beginning before the end of the year seemed slim.

But Mr Philippe Maystadt, Belgian finance minister, has been considering a preliminary list of mainly financial institutions which could be privatised. He indicated to the Financial Times early in November that one of those companies could

be selected for an early sale, to test the water before Christmas.

The new centre-left coalition, which was put in place only in March, has moved fast, and the main reason is money. In an interview with the FT in June, Mr Jean-Luc Dehaene, the Flemish Christian Democrat prime minister, tentatively suggested that privatisation might be considered as a way of easing Belgium's large budget deficit – the principal obstacle to the country joining the first wave of EC member states in economic and monetary union.

In July, the government promised a BFR50bn (€1bn) four-year privatisation programme as part of its budget for 1993. But in October, the worsening European economic situation obliged the government to adjust next year's budget to cover a likely shortfall of BFR31.8bn. Privatisation will bridge half that gap. The government has increased its target for next year's sell-off proceeds from BFR15bn to BFR25bn. A further tranche of BFR15bn will be raised in 1994, and then BFR10bn in each of the next two years.

Meanwhile, the politicians have stepped up the ideological argument. Shortly after the supplementary budget

measures were presented, Mr Dehaene told an investment seminar in Brussels that it would be a no-holds-barred privatisation programme – despite the strictures of the 1991 legislation which indicated that at least 50 per cent of public enterprises should remain in state ownership.

The prime minister said that the committee of "four wise men", appointed to investigate the possibilities for privatisation, had been given a very wide mandate. "No possibility should be excluded, either in the selection of assets to be sold, the identity of the buyer, or the size of the shareholding for sale," he told the seminar.

The speech upset Mr Dehaene's socialist coalition partners. Mr Guy Coëme, the deputy prime minister, who is also responsible for public enterprises, hit back a day later, arguing that the prime minister's comments did not reflect the government's position.

Amid all this excitement, Mr Maystadt – a French-speaking Socialist Christian, and therefore in the same political camp as Mr Dehaene – remains calm. For one thing, he argues that the state needs the money, and that if politicians do not like the idea of privatisation then

they may have to settle for further unpopular cuts in public spending. "If you put the matter on the theoretical level, then of course there are differences of opinion," he says. "But I'm sure that when we come up with concrete proposals, we will overcome all ideological difficulties."

As for the question of selling off more than 50 per cent of state enterprises, Mr Maystadt concedes that in some sensitive areas – including energy and railways – the state might retain control through a "golden share", but he adds: "If it appears that we can get a better deal and we are able to sell our participation on better terms if we allow control by a newcomer, then why not?"

In fact, the government does not have much family silver to sell, partly because it never had a strong nationalisation policy, partly because some publicly-owned enterprises belong to regional, community or municipal administrations rather than the central government.

The Petercam/Hill Samuel report estimated that a range of industrial and financial enterprises could raise up to BFR31.8bn if all the shares held by the state were sold. That would take time. Large state industrial and commercial companies like Belgacom, the

telecommunications group, the state railway and the post office are only in the first stages of conversion to a new management philosophy, aimed at transforming bureaucracies into private sector businesses.

Analysts believe the



Jean-Luc Dehaene: his speech upset coalition partners

preliminary list will be more modest. It is likely to include stakes in financial institutions such as the Caisse Générale d'Épargne et de Retraite (CGER), the Société Nationale de Crédit à l'Industrie (SNCI) – some shares in which are already listed on the Brussels bourse – and the Société Nationale d'Investissement (SNI). Shares in Distrigaz, a natural gas utility, may also be earmarked for sale.

The government says the terms of the sale will be decided on a case-by-case basis, but for the time being it seems unlikely that major public flotations will be considered until larger state enterprises such as Belgacom are ready for privatisation in two to three years' time. Finance ministry officials argue that the capacity of the Brussels bourse is too modest to cope with a large influx of new shares.

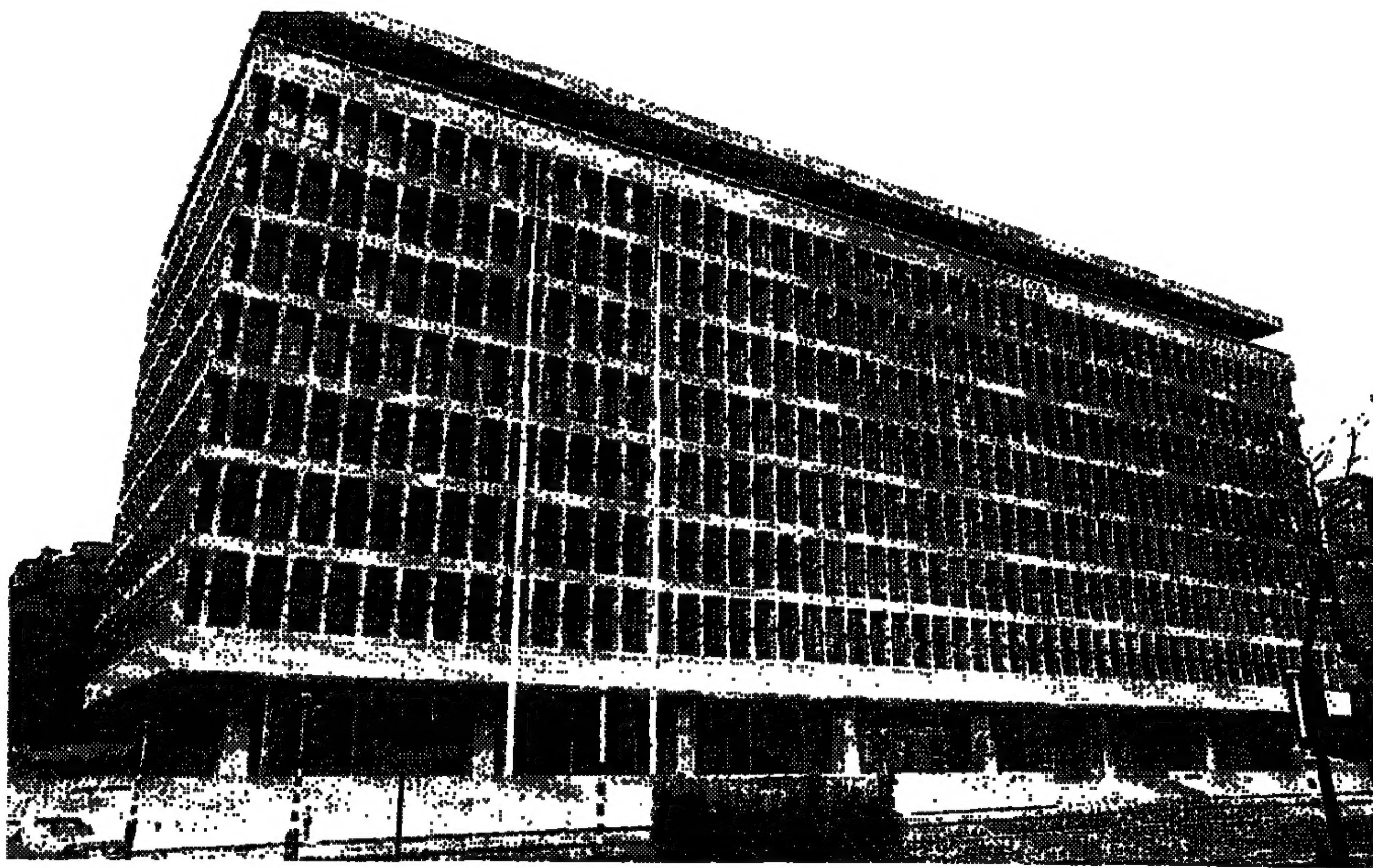
If Belgium does go down the route of sales to specific buyers, rather than the British-style public flotation, those with a stake in the future of the bourse are likely to be disappointed.

"I think it's in the Belgian interest to do this in the British way, especially as we have a [stock] market with much more depth than, say, Italy," says Mr Alan Camu, managing director of Petercam and a director of Hill Samuel. "There have been so many companies leaving the stock exchange that we would love to take a good chunk [of the sell-off]."

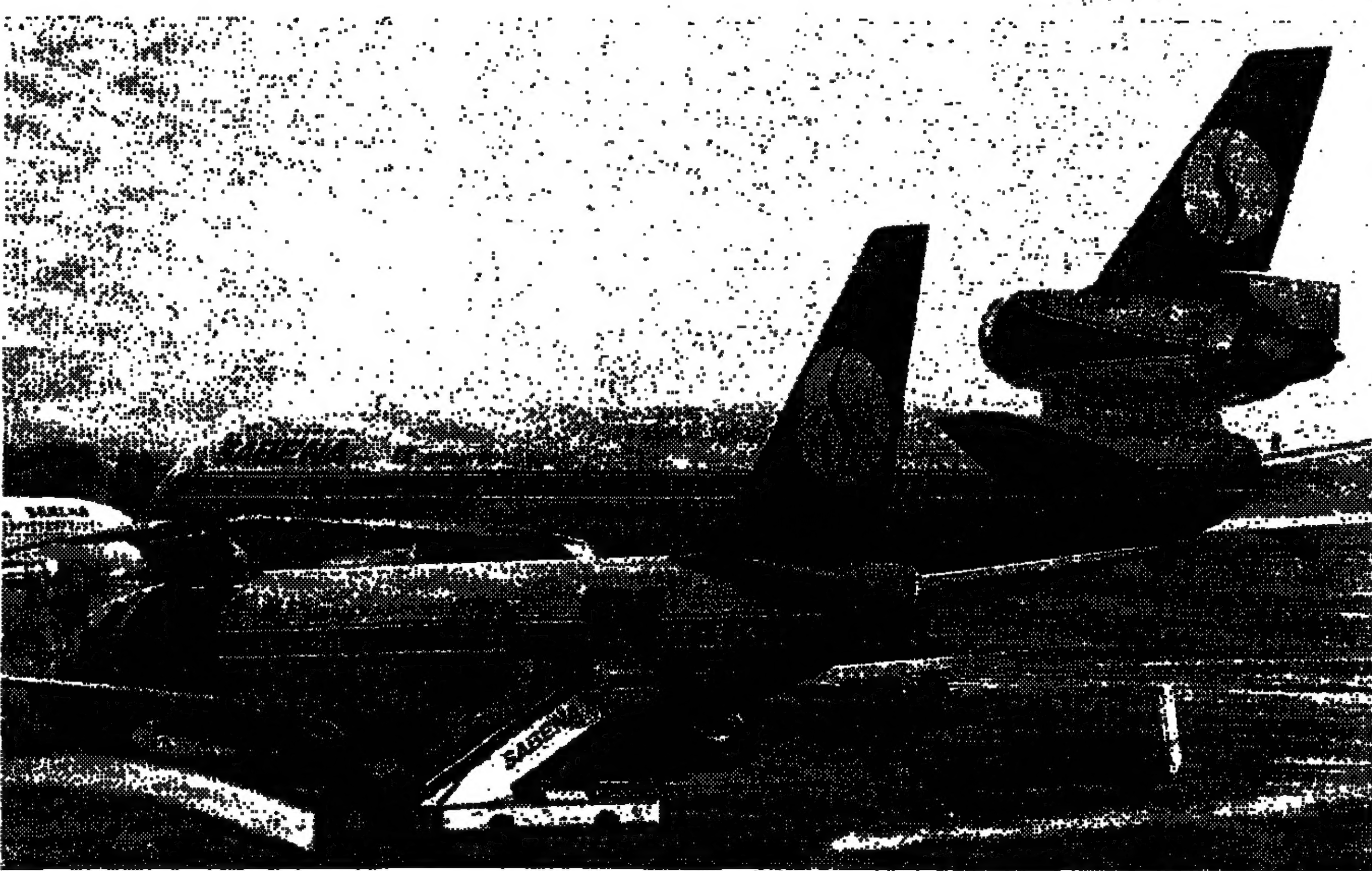
Uncertainty about exactly how the Belgian government will achieve its BFR50bn target does not seem to have deterred potential investors. According to the finance ministry, many tentative approaches have already been made by potential buyers from inside and outside Belgium; and London-based advisers, starved of privatisation business at home, have been filing Mr Maystadt's inquiry with inquiries. The first sale prospectus is eagerly awaited.



The post office may not be ready yet for the private sector



Banque Bruxelles Lambert, one of the country's three leading banks, is no longer facing a bid from Internationale Nederlanden Groep



Flag carrier nationalism: Sabena has had to be bailed out

David Gardner looks at prospects for foreign predators

## Grip remains tight on crown jewels

**B**ELGIUM operates one of the most open economies in Europe, and yet has a reputation for being sensitive about foreign hands getting near its corporate crown jewels.

The psychological starting point for this concern was the unexpected and predatory raid on Société Générale de Belgique, Belgium's largest holding company, launched by Mr Carlo De Benedetti, the Italian financier in 1988. Its latest benchmark was the planned bid for Banque Bruxelles Lambert (BBL), one of Belgium's three leading banks, by Internationale Nederlanden Groep (ING), the Dutch banking and insurance company.

Discussion of this topic is usually peppered liberally with reference to the need for an "ancrage belge" – an anchor of Belgian control over its manufacturing base and financial resources, to ensure that corporate strategy and economic development are designed at home rather than abroad.

As in most EC countries, a distinction is made between foreign investment (invariably welcome) and takeovers by foreign companies to be regarded with suspicion.

But in practice, as opposed to the debate, there is little resistance to outside encroachment among Belgium's business elite, and little more than faint regret among government

policy-makers. "I think it's unrealistic to think that we could prevent the sale of Belgian assets," says Mr Philippe Maystadt, Belgium's highly-regarded finance minister. "We are interested in a European market, so there are some rules we have to apply. The European single market doesn't allow us to prohibit sellers and buyers from other members of the EC."

"To put it another way," he adds, "in the period 1985-90 there were 222 sales of Belgian assets. Of these 59 went to French companies, 57 to Dutch companies and 28 to British companies. Most of them, indeed, are sales to European companies, and in fact to neighbours. We have no way to prevent that, and there may be no desire to prevent that."

If there were, it would be a bit late to start. Belgium is a small country which relies on its open economy, good ports and infrastructure, and high productivity, to earn a much better than average living in the international marketplace. According to Générale de Banque, Belgium exports per capita twice as much as Germany, and five times as much as Japan.

From the 1960s onwards it has turned itself progressively



Gerard Mestrallet: punctiliously observed local sensitivities

into an attractive base from which multinationals can serve the European market. As a consequence, 43 per cent of Belgium's top 3,100 companies are owned by foreign interests, according to a University of Louvain study. The Louvain analysis points out, moreover, that this greatly understates

the position, since these multinationals account for 43.5 per cent of total added value generated in Belgium.

Yet familiarity and ease with foreign investors did not prepare Belgium's tightly-knit corporate clans for the De Benedetti attempt to take over La Générale. Part of the reason was sheer lack of exposure to corporate raiding.

When Mr De Benedetti made his move, Belgian business had experienced only one real assault from abroad. Groupe Bruxelles Lambert (GBL), Belgium's second-largest holding company, in 1987 saw off a hostile bid by Axa of France for Royale Belge, Belgium's second-biggest insurance group. To do so, however, it had to combine forces with Union des Assurances de Paris, another French group.

The following year, La Générale was finally rescued by a French "white knight", the Compagnie de Suez conglomerate. By last year, the French had sent in one of its top executives,

Mr Gerard Mestrallet, to get a grip on the sprawling holding, leading to fears that decision-making would shift from Brussels to Paris.

However, Mr Mestrallet has punctiliously observed local form and sensitivities, in a way that some La Générale executives felt Mr De Benedetti would not have done. For instance, he delivered part of his first presentation in Flemish, which he set about learning.

This is more than anecdotal in a country constantly beset by rivalries between the French and Dutch-speaking communities. But it is, nevertheless, hard-headed business logic that takes precedence. What was remarkable about the near-paranoia unleashed in 1988 about La Générale falling under outside control was how quickly it subsided. Mr Maystadt says the fears "have not completely died, but I repeat, we have no choice. We are a member of the EC and part of the single market, and



Carlo De Benedetti: predatory raid that failed

we are a small country." Subsequently, leading Belgian companies such as Solvay, the chemicals group, moved fast to play the glaring gaps in their defences exposed by Mr De Benedetti – who had secretly amassed a nearly 15 per cent stake in La Générale before revealing his hand.

But this was logical protection against any form of hostile takeover, more than an assertion of specifically Belgian control.

The search by Sabena, the troubled national airline, for a foreign partner provides another example. Regionalist rivalries surfaced among employees during 1990's abortive link-up with KLM, the Dutch carrier, and when Air France acquired a chunk of Sabena equity after the Belgian government repudiated the airline.

The "ancrage belge" argument was plausibly fanned because the Belgian state led the 11bn ball-out, in what looked to be straightforward, flag carrier nationalism. Senior officials in the debt-strapped government underlined, however, that it would have been more expensive to close Sabena than to refloat it, mainly because of costly social transfers to its 12,000 workers.

In the event, ING's proposed takeover of BBL will not

resolve the issue. Ten days ago, BBL announced the bid plans had been scuppered by differences over the price to be offered. However, the basic idea of a merger to set up a "big player" group on the *Alliance* or *Bancassurance* model, selling insurance and banking services throughout the Benelux countries through an integrated network, had a logic and appeal to BBL's management which has added fuel to the discussion.

The bank's main shareholder, the entrepreneur Mr Albert Frère, chairman and managing director of GBL, is thought to favour a link-up with Credit Communal, the credit institution jointly owned by all Belgium's provinces and municipalities. That idea – an *ancrage* as *Belge* as you could get – could now become a reality, despite suspicions that it was merely a tactical flirtation, aimed at jacking up the ING offer price. Mr Maystadt told the FT before the outcome of the ING-BBL talks was known that the government had no intention of preventing a Dutch takeover, but "would prefer that BBL remains in so-called Belgian hands". Now it looks as though he may get exactly what he wanted all along.

Co-ordination centres have not lost their allure after 10 years

## Tax privileges still on offer

**B**ELGIAN "co-ordination centres" will be 10 years old on December 30. That was the day in 1982, when the government – endowed with special powers to cope with the growing economic crisis – authorised tax-breaks for companies operating certain financial and management services out of Belgium.

If there is a birthday party, it could be a particularly crowded one. As of February this year, there were some 255 co-ordination centres in Belgium, employing 6,500 people and total capital of BFR50bn (€1.5bn). The corporations involved include General Motors and IBM, while a number of Belgian companies with international interests have also found it worthwhile to spin off some of their activities and form co-ordination centres.

Mr Philippe Maystadt, the finance minister, smiles at the idea that the concept's allure may have diminished over the past decade. In fact, he has

recently made a number of technical amendments to the original legislation, because, "it was really too attractive," he says. "Even after those adjustments, it is still attractive, as you can see from the number of inquiries I get."

The basic attraction of the co-ordination centre is that it allows the multinational to make cost savings, by shielding centralised management activities from income tax. Centres are also exempt from tax on initial capital or capital increases, and from real-estate tax.

As the Belgian finance ministry points out, in its brochure on the centres scheme: "The legislation allows a broad range of sophisticated intra-group financing operations to

be carried out in a virtually tax-free environment."

The co-ordination centre concept is not specifically aimed at encouraging the establishment of international holding companies on Belgian territory. Separate fiscal attractions help Belgium compete with neigh-

bour Luxembourg and the Netherlands in that area – for example, under general Belgian rules, dividends received are 95 per cent tax-exempt. But the legislation on co-ordination centres stipulates that the centres cannot hold shares in any other company.

In addition, the centres' activities are carefully restricted. For example, they cannot sell accounting services outside the group to which they belong, but they can do the accounts for affiliated companies, and charge for it. Less

have to be vetted by the Belgian authorities, which collaborate with potential investors to tailor a centre to the multinational's needs.

Apart from anything else, the scheme was fortuitously timed, coinciding with the rapid growth in Brussels' political influence. As Mr Julian Oliver, of American Express Europe, which was in the first wave of companies to set up co-ordination centres, points out, tax-breaks alone are not responsible for the idea's success. "Brussels is geographically close to the industrial heartland of Europe, and obviously it's the political capital of Europe."

According to Mr Benoit Troch, of Deloitte & Touche's Antwerp office, the recent legislative

changes – which allow existing centres to apply for general of their status for a further 10 years – have not reduced the basic financial attractions of the concept. For example, the holding HQ can borrow funds from the co-ordination centre to buy shares; the borrowing charges relating to the purchase of shares are tax-deductible under Belgian law, but the interest income earned by the co-ordination centre is tax-exempt.

Some who have benefited from the tax privileges of the scheme are amazed that this apparent "bitting of the hand" can still happen as the single European market is put in place. But as Mr Troch told a recent seminar on European tax: "Nobody knows how long this government will last and they do need a lot of money, but so far with all the changes they have made, this has not yet been questioned."

Andrew Hill

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# Impact of 'little bang' is slightly muted

## Choice shrinks for investors

THE Brussels stock market has been hit, like most world markets, by the downturn in the global economy.

As for Belgium's stock-broking community, liberalisation coincided with that slump in volume. Consequently - as everybody knows - the president of the bourse downwards is prepared to admit - changes to the broking system and improvements in the structure of Belgian commissions have had only a limited effect.

This year will be more profitable than last, but Brussels, hampered by illiquidity and a limited range of domestic stocks, still struggles against more active European rivals. Mr Jean Peterbroeck, the bourse president, says part of the reason is that the government gave the bond market a leg-up in the same series of reforms by reducing withholding tax on fixed interest financial instruments from 25 to 10 per cent. Combined with the turbulence of European stock markets, that made domestic bonds much more attractive than equities for traditionally cautious Belgian investors.

At the same time, he claims that large Belgian banks did not act on their promises to invest heavily in stockbroking operations. The delay in implementing a Belgian futures and options exchange has also held back the market, and Mr Peterbroeck continues to fight for the abolition of the tax on stock market turnover, which

penalises investors up to BFR10,000 for each transaction.

There is little the bourse can do to cope with more lasting structural impediments to growth of the exchange. In 1980, for example, there were some 550 Belgian stocks quoted on the exchange; in 1992 there are just 170. They are larger companies, formed from mergers, but the investment choice looks restrictive to buyers who are used to the British or German exchanges.

The gradual shrinkage is continuing: for example, had Banque Bruxelles Lambert been swallowed up by the Dutch financial services company Internationale Nederlanden Groep, then the bourse, while benefiting from the short-term takeover excitement, would have lost one of its most heavily-traded and best-known stocks.

In the long term, flotation of publicly-owned companies may help increase the liquidity of the market, although the first wave of privatisation is likely to involve sales to single buyers rather than British-style share offers. Brokers are also trying to persuade family companies - for example, the owners of the Stella Artois beer brand - to float some of their shares on the exchange and excite new investor interest.

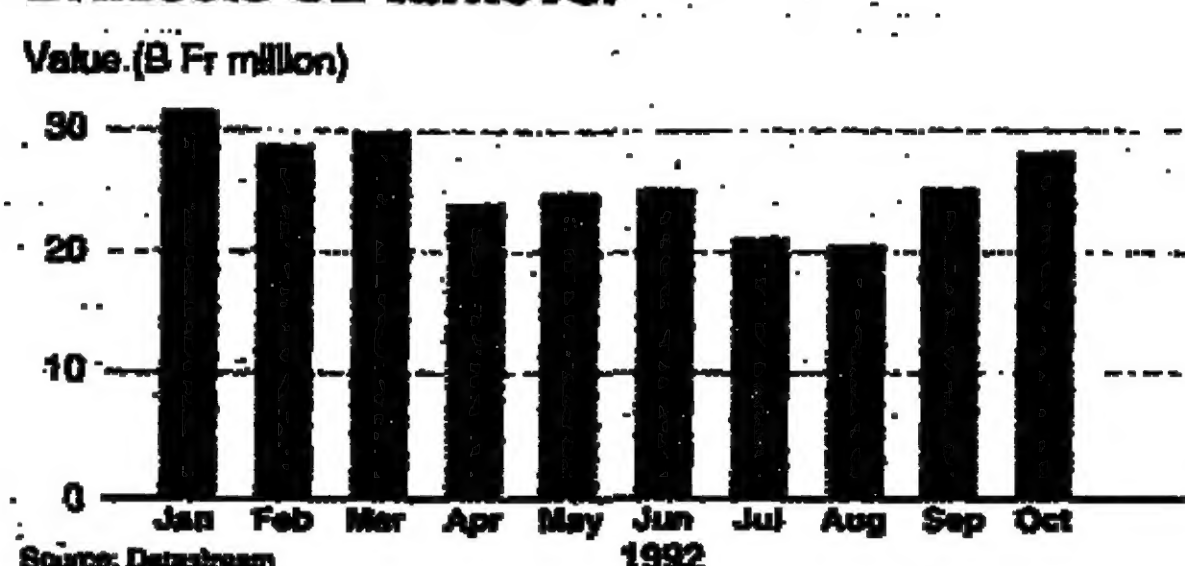
For the future, like other EC stock exchanges, Brussels has work to do to implement changes introduced by EC directives on investment ser-

Belgium's "little bang" - the government reforms which came into force at the beginning of last year - was supposed to energise the Belgian financial markets. But external events conspired to undermine some of the effects of the programme. Whether it can yet be counted a complete success depends, to an extent, on which sector of the financial markets one looks at. Below, ANDREW HILL considers its effect on the stock market, futures and options and the bond and money markets

### FT-A world indices



### Brussels SE turnover



vices. In particular, the Belgian exchange will try change to a London-style market-making system by early 1995. Mr Peterbroeck fears the costs associated with introducing such a system might drive more small brokers out of the market, although he hopes to collaborate with other EC exchanges to ease the burden.

Even if he seems unhappy about the administrative

changes involved, the bourse president agrees that in general a single European market will be good news - it was, after all, what the 1991 reforms were partly meant to prepare for. "Belgium can only gain," Belgian investors have already invested a lot outside the country - but outside investors have not spent very much in Belgium. The possibilities are great," says Mr Peterbroeck.



The Belgian stock exchange, which will try to change to London-style market-making by 1995 (photograph by Ashley Ashwood)

## Computer delay hits Belfox

FUTURES and options have had a slow start in Belgium. Belfox, the new futures and options exchange, was supposed to open for business in May or June 1991. As it was, dealers did not start buying and selling futures until December 6, and the options market was launched only six months ago.

Getting the British-designed computer system up and running efficiently was the main problem, according to Mr Henri Vermeiren, chairman of the Brussels-based exchange. "The delay caused a lot of negative elements - financial, psychologically and for the image of Belfox in the market," he says. "It also absorbed a lot of management time."

Even now, with the computer problems largely ironed out, the market is small. Two options are traded - on Belgian retailer Delhaize, and on Petrofina, the large Belgian natural resources company - and two futures, one on Belgian government bonds (BGB) and one on the three-month Belgian interbank offered rate (Bibor).

Even leaving aside the technical problems, this has been a difficult teething period. The cornerstone of futures trading was supposed to be the BGB future, which Belfox hoped would capitalise on the success of the underlying government bond market. But after a reasonably buoyant start, volume collapsed in June and July.

Mr Vermeiren puts the slump down to the relative inexperience of the Belgian market, combined with competition from the market in German Bund futures. Some investors thought they could hedge their Belgian franc exposure in the German market - relying on the fact that the franc is tied to the D-Mark. In addition, the more liquid German market could offer narrower spreads to futures dealers - two to three basis points, rather than eight to 10 on Belfox.

That gap has now narrowed, according to Mr Jos Schmitt, Belfox general manager, with the Belgian exchange offering a four to five basis-point spread. Mr Schmitt also

believes investors have begun to realise that they cannot cover all their risks on the Belgian market with Bund futures.

The situation was eased by a "gentleman's agreement" between 15 financial institutions, put in place in the middle of August, when BGB futures volume was in the doldrums. The institutions agreed to deal a minimum number of BGB futures contracts until the end of the year. The effect on BGB futures trading has been dramatic: between April and August volume only occasionally burst through a daily average of 1,000 contracts a day, and was mostly below 500, but in the last two weeks

of October, volume averaged 2,100 contracts daily.

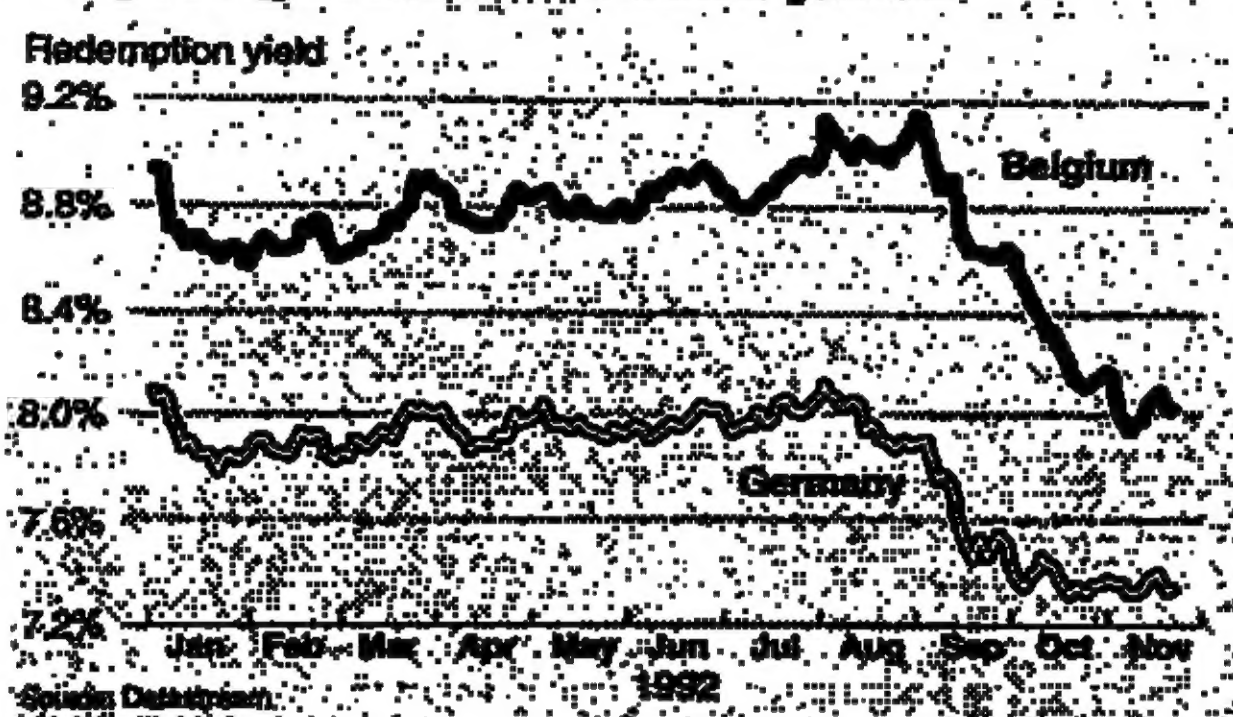
Financial institutions now seem to be dealing contracts voluntarily, but it is clear that when the gentleman's agreement is supposed to expire - will be crucial.

The options market, which has faced stiff competition from the better-established Amsterdam exchange, is in need of more products. By mid-February 1993, Belfox hopes options will be available on some of Belgium's other large shares - such as Electrabel, Societe Generale de Belgique, Solvay, Union Minière, GIB Group, and the large banks - as well as a future and an option on the Belfox index of top Belgian stocks.

But Mr Vermeiren is not yet prepared to declare victory in his campaign to educate sceptical investors in the delights of futures and options trading. "I hope [the market] is recovering, but honestly speaking I have some doubts," he says. "I think it will only recover fully when we have a complete system and products on the [stock market] index."

## Bond market becomes attractive

### 10-year government bond yields



THE bond and money markets were the success story of the wide-ranging financial reforms. The state reduced withholding tax on new fixed yield securities, tied the Belgian franc to the D-Mark, and, later, reformed the money market, and gave a kick-start to the market in linear bonds (which are known as OLOs).

The result has been a reduction in interest rate differentials between Germany and Belgium, and active primary and secondary markets in government debt instruments and treasury bills.

In the secondary market, total transactions in OLOs averaged BFR25bn daily between the beginning of 1991 and mid-1992, and BFR30bn in treasury bills.

On a recent finance ministry mission to Asia, investors complained about the lack of liquidity in Belgian bonds during their morning trading period - an indication, say Belgian officials, of the growing attractiveness of these instruments to international investors.

Domestically, debt costs for the Belgian state have been reduced, and the investor now

has a much wider choice of instruments.

The reform is not over. Since October, primary dealers in OLOs have been able to "strip" the long-term 2007 linear bonds, allowing principal and coupon to be dealt separately - adding Belgium to France and the US as the only countries in the world which offer such a facility.

The government also wants to diversify the market by allowing securitisation of government debt, and encouraging the corporate bond market, an area where Belgium has always lost out to Luxembourg with its combination of tax breaks and banking expertise.

The key, according to Belgian officials, is to attract issuers to the market, and to that end, a draft law aims to cut the upfront cost of issuing corporate bonds. It will also extend to corporate bonds the complex book-entry clearing system used for OLOs.

This would allow Belgian corporations and non-Belgian holders of bearer bonds - usually difficult to identify for tax purposes - to benefit from their exemption from withholding tax on such instruments.

Officials hope the framework for such a system will be in place by the middle of next year.

ONE of the better books on Belgium appearing this autumn had the modest title: "The Belgians". Sponsored by the Foreign Ministry and the Office for Foreign Trade, it offers a readable, well-illustrated account of Belgium's history, its government and its multilingual culture, interspersed with disarming nuggets of information such as: "Since the end of World War II, Belgium has already had 36 different governments."

The divisions between a Flemish North and Walloon South may have left Belgium politically weak, but from an economic standpoint, the country has remained surprisingly resilient - to the point where its increasing regionalism may be less of a national handicap than is often imagined.

"The Belgians" was published just before a long weekend of horse-trading between Mr Jean-Luc Dehaene, the prime minister, and the leaders of the four main parties in his government. It culminated in what may prove a historic compromise between the Flemish and the Walloons. If passed by parliament, it will redraw the map of Belgium as a federal state, wrapping up the third stage of constitutional reforms first set out in 1988.

Part of the plan means that the regions will assume new responsibilities from the national government, notably for agriculture and foreign trade. Responsibility for scientific research and for legislation concerning social assistance agencies will be shared between the regions and the communities - the other main political divisions built around the Dutch, German and French languages.

From an investor's point of view, the three increasingly autonomous regions - Brussels, Flanders and Wallonia - stress that the reforms will not change the long-standing decentralised approach to job-creation. Mr Philippe Maystadt, Belgium's finance minister, makes clear that the three will market themselves in the same way as other European regions, such as Bavaria or Catalonia.

Each Belgian region has developed its own distinctive sales pitch. In Flanders, the accent is on its location at the heart of the European single market due to come into effect on January 1, 1993. Equipped with the three major seaports - Antwerp, Ghent and Zee-



Liege in Wallonia: welcoming the Japanese

### Flemish-Walloon compromise

## Regionalism may not be such a great handicap

bruges - Flanders has first-class, toll-free highways backed up by a dense railway network which puts London, Paris, Bonn, Cologne and Düsseldorf all less than 300km away. Not unreasonably, the region can lay claim to being ideally situated as a test market for northern Europe.

Indeed, there are times when what regional officials call "Flanders/Belgium" is portrayed almost as an extension of Netherlands and Germany in terms of productivity, low inflation, and skilled, multilingual workforce. With only 58 per cent of the Belgian population, Flanders accounts for 74 per cent of the country's exports to Europe.

Automobile sub-contracting is an important source of jobs since Ford, General Motors, Renault and Volvo plants are all nearby. Mr Jose Mercken, managing director of Flanders Investment Office, stresses that small, clean, high-technol-

ogy businesses such as micro-electronics are what the region wants. But Europe's deflationary cycle has made it much harder for Flanders to pull in foreign investment, with companies postponing decisions until early next year, she adds.

Wallonia's experience this year is similar. The region has largely recovered from the corporate horror story of the late 1970s, when steel and glass industry closures took their toll; but unemployment is still between 12 and 14 per cent, forcing the Walloons to dream up new ideas on how to sell itself to the outside world.

One aim is to revive Wallonia's pioneer heritage in industry. Walloons set up a steel plant in Sweden around 1800, and the first glass manufacturing operation in Japan in the late 19th century.

Mr Jean-Marie Agarkow, deputy general manager at the office of foreign investment, describes the pioneer theme as

similar to an American Wild West movie; but this time the "good guys" in white hats are the Japanese who are being welcomed in Wallonia with a fervour more readily associated with job-hungry Britain.

One of the latest Japanese investors is Tsuji, the Osaka-based school for cooks. Tsuji bought a chateau near Mons for BFR30m and is prepared to put in a total of BFR10m to train Japanese cooks for six months in the fine arts of Belgian and European cuisine. Pushing the Brussels bureaucracy to ease up on visa restrictions was a bit of a nightmare, says one Wallonia official, but in the event it worked.

Wallonia has moved faster than Flanders to adjust to EC demands that richer countries (such as Belgium) rein in national investment assistance to their own regions, so as to avoid undermining the effect of Community aid to poorer member states. The Walloon response was typically practical: the definition of a small-to-medium business was raised from its original level of a company employing 40-to-70 people to the EC level of 250 people and BFR50m turnover. These companies can now expect the same level of tax write-offs or capital relief of up to 21 per cent, plus some aid if they locate in a special assistance area.

For much of the late 1980s, Brussels might have looked up at its nose at such inducements. With its newly-minted image as the "political capital of Europe", Brussels seemed to be riding the crest of a wave created by the single market 1992 project. More recently, the economic downturn has dented confidence.

Some 15,000 civil servants work in Brussels, three-quarters for the European Commission. With families, that means 37,000 people. If one includes the growing press corps and the diplomatic corps, conference goers, lobbyists and international visitors, this group alone is estimated to generate BFR22.5bn, of which all but BFR1.5bn stays in Belgium. This combination of spending power and political influence is the real drawing power of Brussels - even if it has a long way to go before it can match Washington DC, the capital with which it is often compared by Europeans.

Lionel Barber

## WHAT IS THE LINK BETWEEN JAZZ, PRODUCTIVITY AND AGASSI?



THE SAXOPHONE WAS INVENTED BY ADOLPHE SAX IN WALLONIA, BELGIUM'S FRENCH-SPEAKING REGION, AND AGASSI PLAYS WITH A CARBON FIBRE RACKET CONCEIVED AND PRODUCED BY DONNAV IN WALLONIA - SMALL WONDER SINCE, ACCORDING TO THE US LABOR FORCE REPORT, WALLONIA'S PRODUCTIVITY IS ONE OF THE HIGHEST IN EUROPE.

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WALLONIA: THE OBVIOUS CENTER OF EUROPE

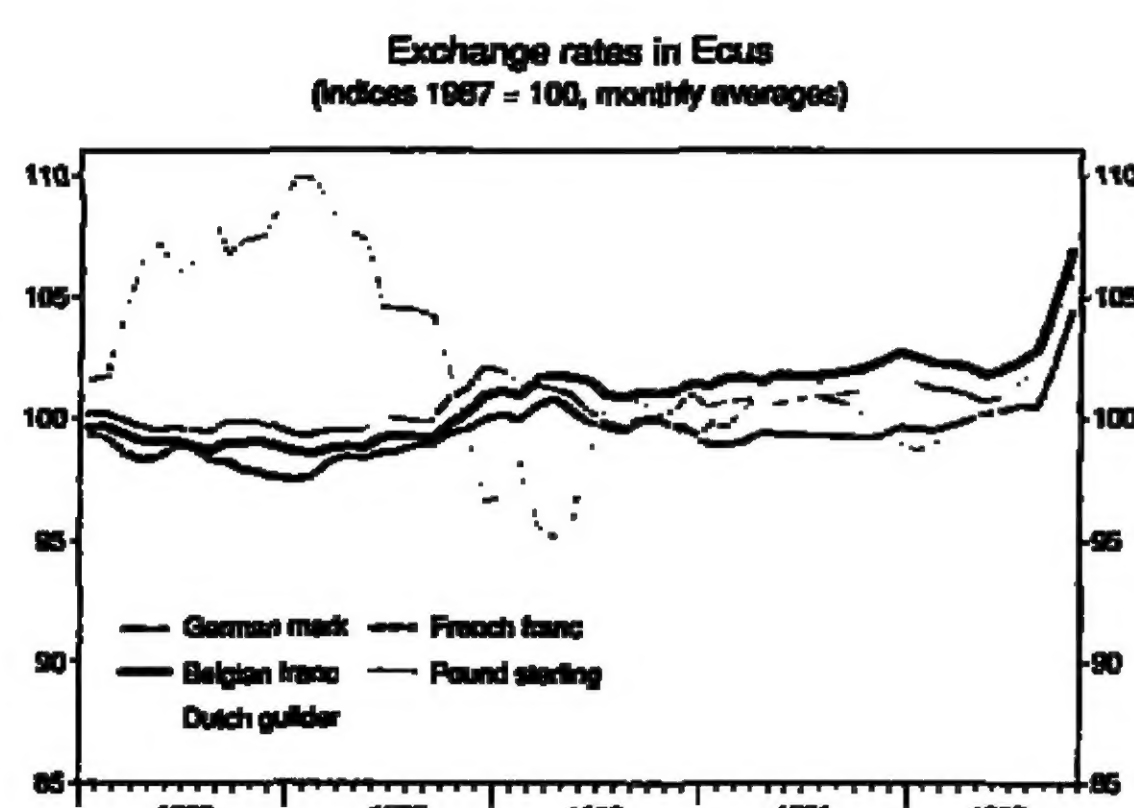
MINISTRY OF WALLONIA REGION (BELGIUM)  
INVESTING: O.E.I. TEL: 32-81-32 11 31 FAX: 32-81-30 14 00  
TRADING: D.A.R.E. TEL: 32-2-20 55 11 FAX: 32-2-20 55 70



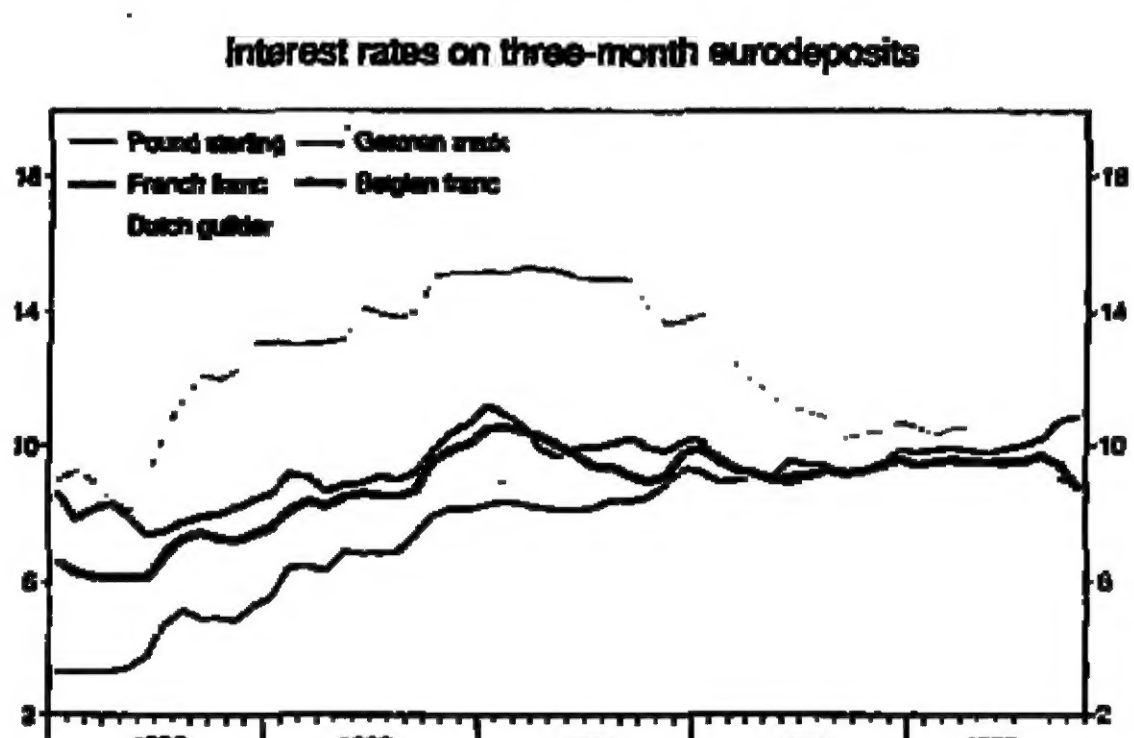
# BRUSSELS AT THE LEADING EDGE OF FINANCE

## The Belgian Franc : a quasi-Deutsch Mark with a higher long-term yield

Your confidence in the Belgian Franc is based on solid macroeconomic fundamentals of the Belgian economy and a credible monetary policy. The actual higher long-term yield makes it a currency worthwhile to consider in your investment decisions.



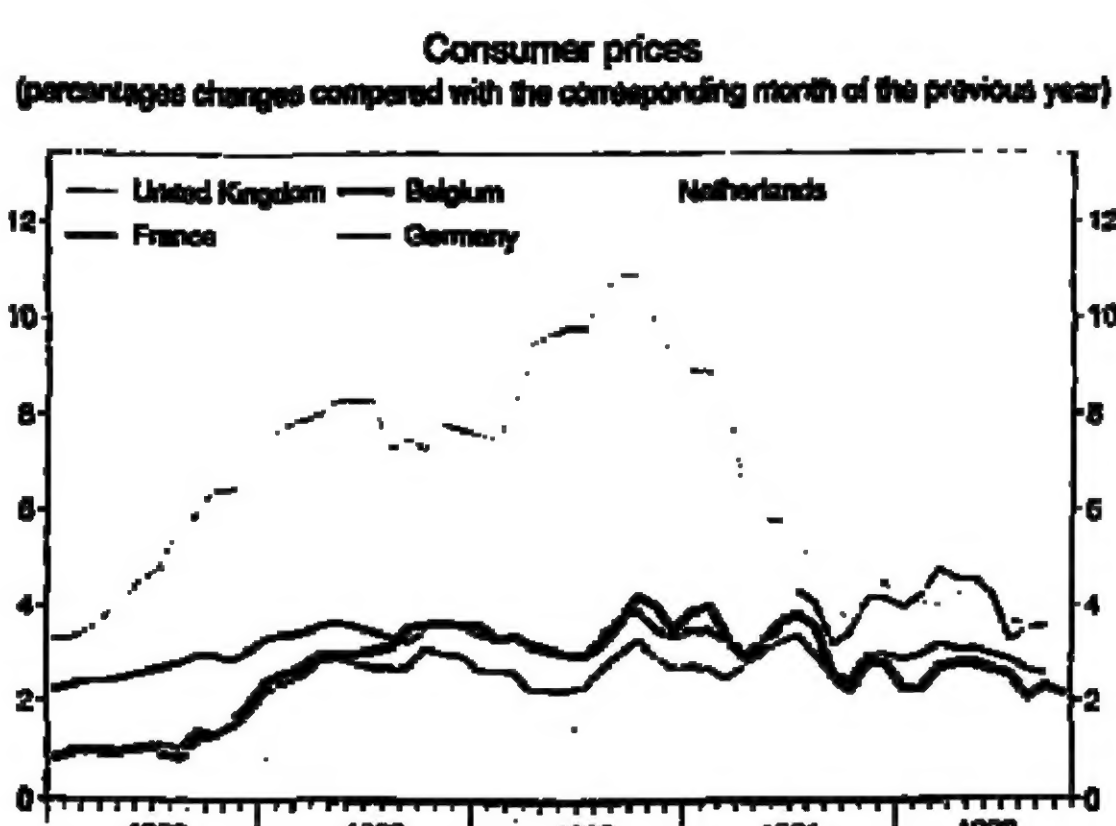
Belgium has pursued a strong exchange rate policy linked to the DEM since June '90. This policy has proved quite successful as the BEF has ranked systematically at the top of the European Exchange Rate Mechanism (ERM).



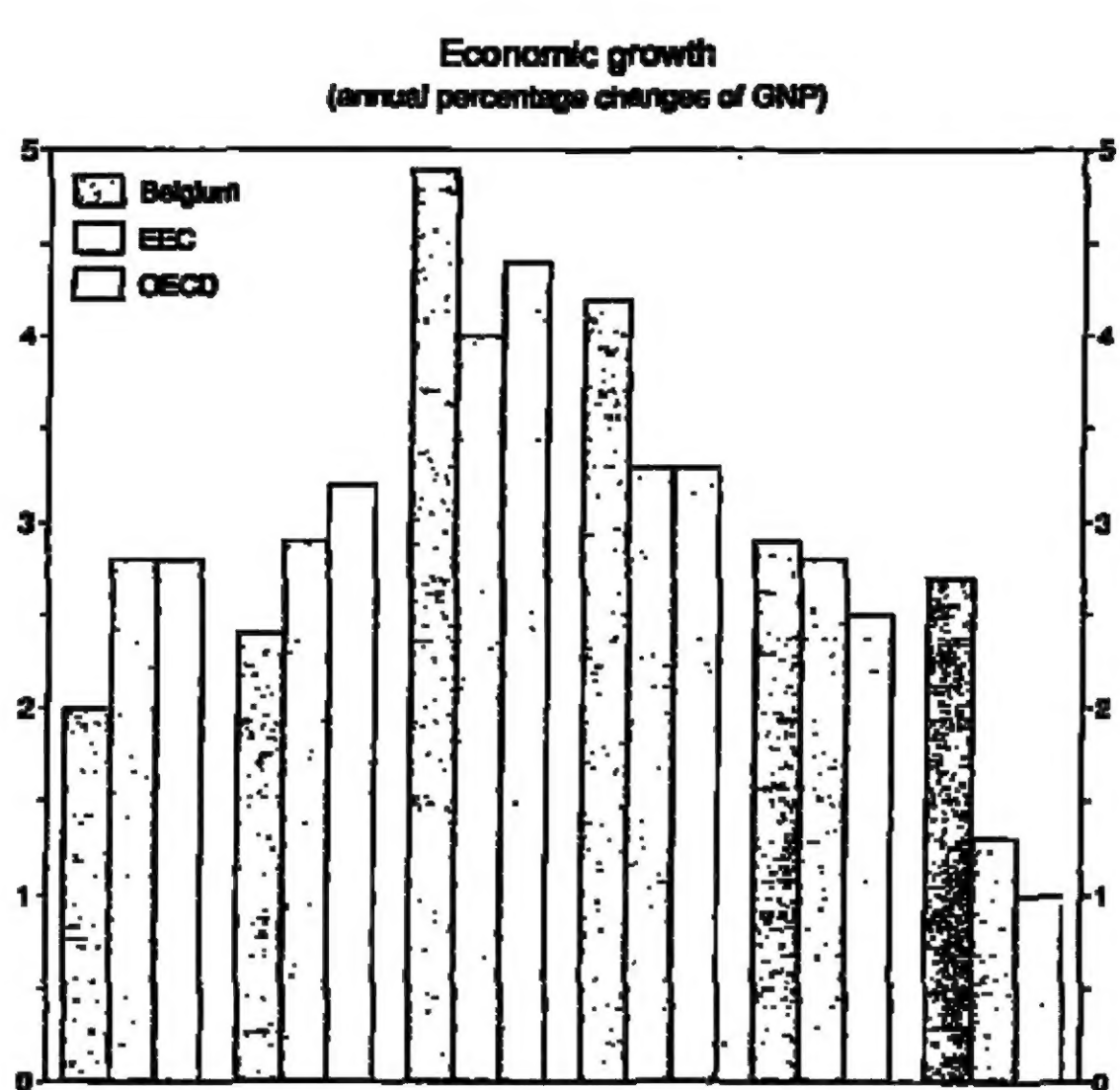
The favourable reaction to the strong currency policy has been translated into a rapid decline in the interest rates spread against the strongest EMS currencies, as Belgian short-run interest rates have closely shadowed trends in German rates during the last 2 years.

During the recent currency crisis in Europe, the Belgian National Bank intervened for about the same amounts as the Dutch central bank to support the weaker currencies of the ERM. As a result, the BEF was considered as a refuge currency with the short-run capital inflow in BEF during the month of September, amounting up to BEF 122 billion or 1.7% of GDP.

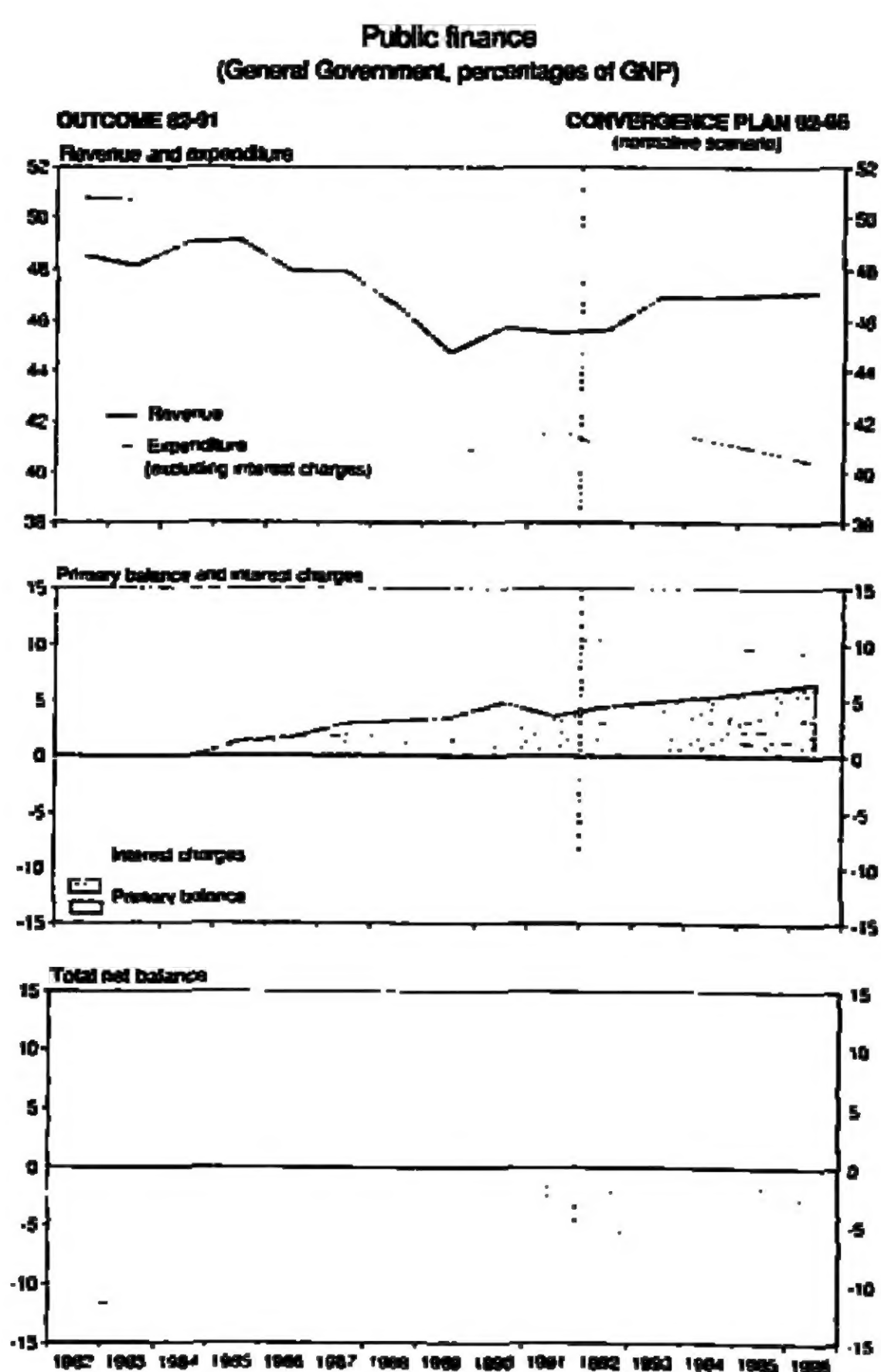
Helpful fundamental developments underlying the strength of the BEF include the sustained and comfortable annual surplus in the current account of 2% of GDP or more during the last 6 years, a figure which will also be reached in 1992 and 1993.



Belgium has traditionally performed extremely well on the inflation front, and with annual inflation at 2.2%, it currently enjoys one of the lowest rates in Europe.



The performance on inflation goes hand in hand with an economic growth rate better than the ERM average, even in 1992.

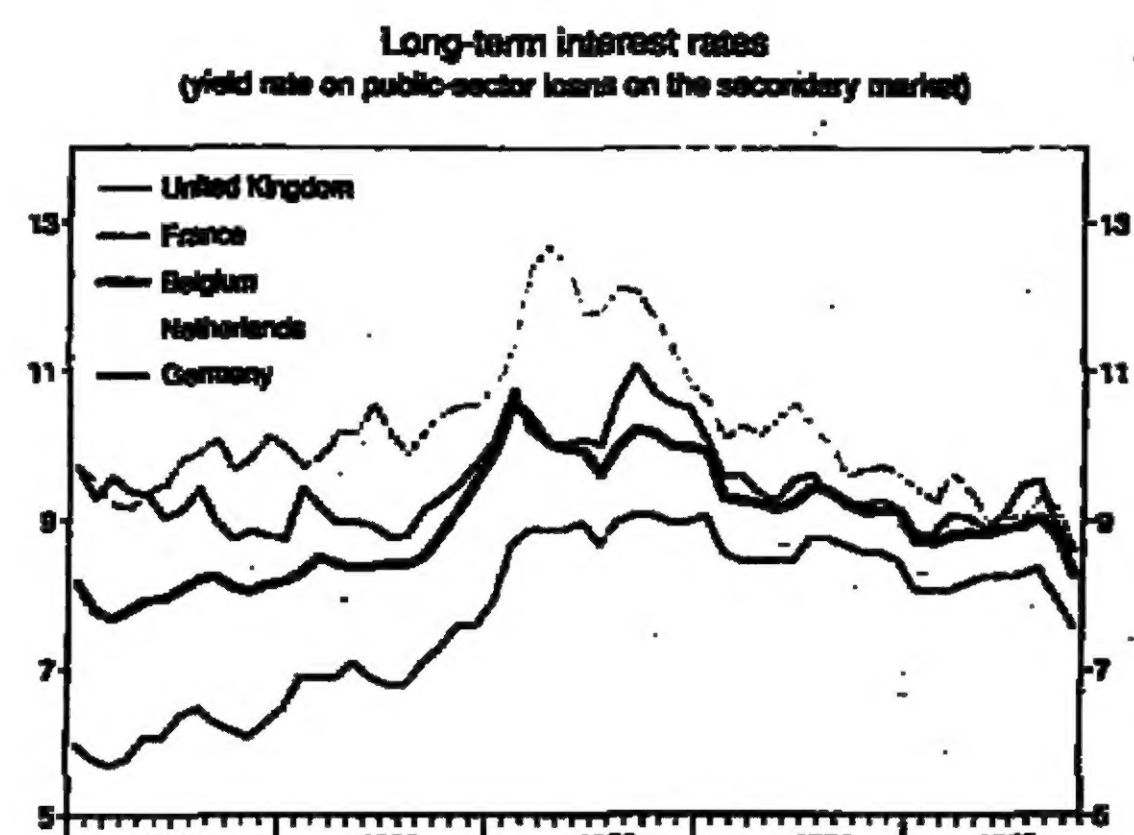


Belgian public finances are progressing in a positive manner. The Belgian government has run a primary budget surplus (i.e. revenues minus expenditures excluding interest charges) since '84. This surplus amounts today to 5% of GDP, the highest in the European Community.

Moreover, the government's convergence plan

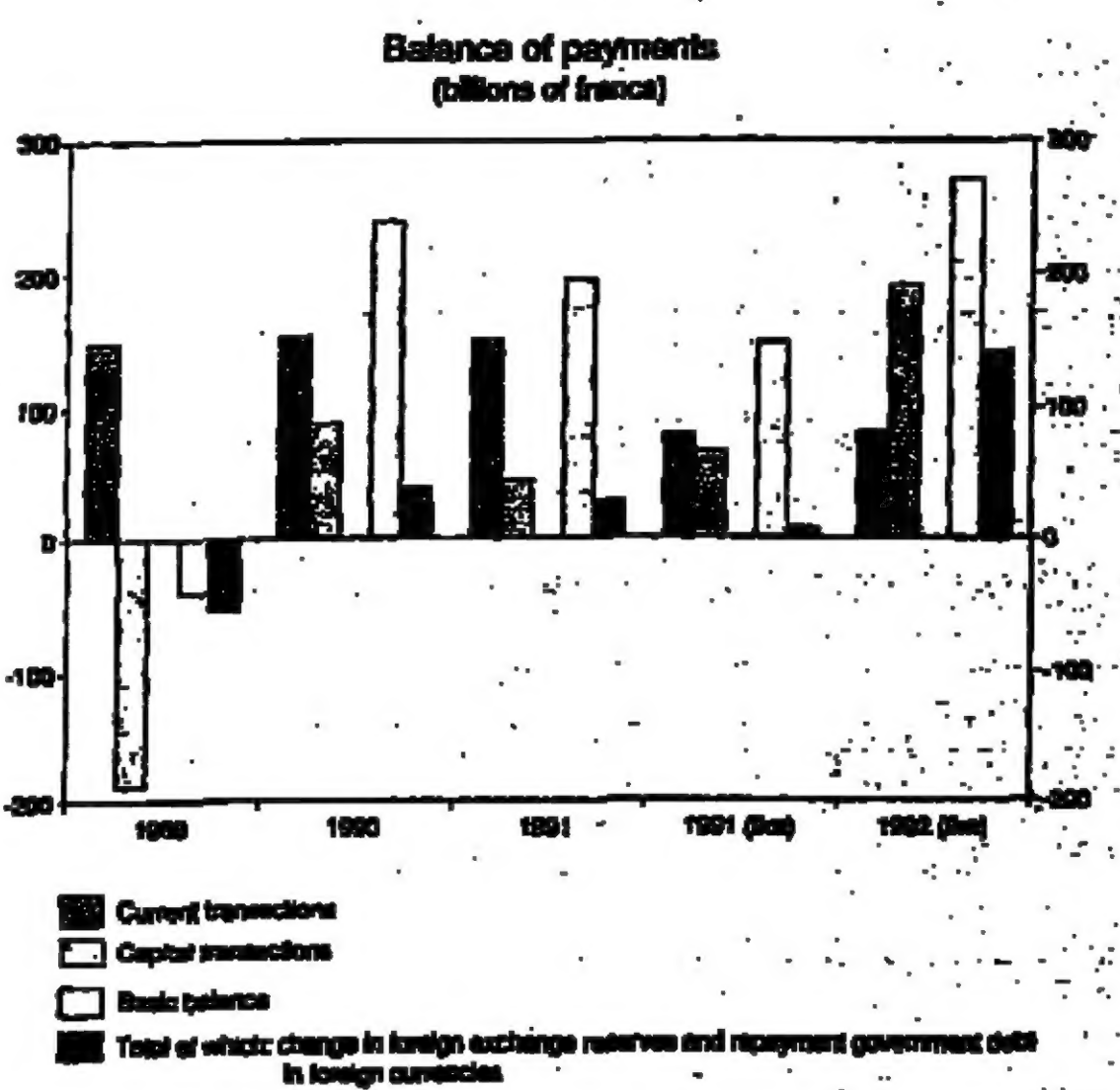
to phase III of the European Monetary Union implies a public deficit of less than 3% by the end of 1996, a target well within the possibilities of the public finances.

All these items should and do reduce possible market concerns about the strength of the BEF in the future.



The credibility of the monetary policy is reflected not only in the level of the Belgian short-run interest rates but also in the long-run interest rates, today about 8.1 % and down from a 200 basispoints spread with the German level 2 years ago to 65 basispoints now.

Moreover the liquidity on the secondary market of government securities has improved considerably. In monthly terms, the volume has gone up from about BEF 220 billion early '91 to BEF520 billion in the second quarter of '92, with an average yearly turnover ratio of about 5.



The financial markets reacted to these developments with due enthusiasm: during the first 9 months of '92, the long-run capital account showed a surplus of BEF 191 billion (or 2.7% of GDP) versus BEF67 billion during the same period last year.

As a result, the basic balance of payments (i.e. the sum of the current account and the long-term capital account) jumped up from BEF147 billion in the first 9 months of '91, to BEF272 billion up to September '92. Concurrently, the official balance of payments improved from a surplus of BEF 8 billion (3 quarters '91) to BEF141 billion during the first 3 quarters of '92.

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